

Michigan State Police Retirement System
a Pension and Other Employee Benefit Trust Fund of the State of Michigan

**Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2008**



M S P R S

**Prepared by:
Financial Services
for
Office of Retirement Services
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INTRODUCTORY SECTION

Certificate of Achievement
Public Pension Standards Award
Letter of Transmittal
Retirement Board Members
Advisors and Consultants
Organization Chart

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan State Police Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R.", is written above the title.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Egan", is written above the title.

Executive Director

Public Pension Standards Award



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2008**

Presented to

Michigan Office of Retirement Services

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, reading 'Alan H. Winkle'. The signature is fluid and cursive, with the first name 'Alan' and last name 'Winkle' clearly legible.

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

State Police Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517-322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 12, 2008

The Honorable Jennifer M. Granholm
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan State Police Retirement System (System) for fiscal year 2008.

INTRODUCTION TO REPORT

The System was established by legislation under Public Act 251 of 1935. It now operates under the provisions of Public Act 182 of 1986, as amended, and is administrated by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all State Police. The services performed by the staff provide benefits to members.

Responsibility

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

Internal Control Structure

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal

INTRODUCTORY SECTION

Letter of Transmittal (continued)

control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

Independent Auditors

Andrews Hooper & Pavlik P.L.C., independent auditors, conducted an annual audit of the System. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2007. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

The State Police Retirement System was created by Public Act 251 of 1935 and later superseded by Public Act 182 of 1986. A nine-member board, under the direction of a chairperson elected from the membership, administers the System to provide retirement benefits for State Police officers. Financing is provided by investment income and by an annual legislative appropriation.

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show steady performance over the long-term.

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of (12.2)%. For the last five years, the System has experienced an annualized rate of return of 8.1%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe the accounting and administrative internal controls established by the System provide reasonable assurance the System is carrying out its responsibilities in safeguarding its assets, in maintaining the reliability of the financial records for preparing financial statements, and in maintaining accountability for its assets.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the “funded ratio.” This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System uses the actuarial valuation from the previous fiscal year for this report in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2007. The actuarial value of the assets and actuarial accrued liability of the System were \$1.3 billion and \$1.5 billion, respectively, resulting in a funded ratio of 86.7% at September 30, 2007. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

In fiscal year 2007 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. A GASB 43 compliant actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability as of September 30, 2008, would be \$918.1 million. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, only two valuation years are presented and included in the required supplementary information of this report.

In fiscal year 2008 the State of Michigan adopted Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Because GASB Statement No. 45 requires the exclusion of all postemployment benefits, all assets accumulated as a result of retiree contributions collected in excess of retiree healthcare benefits, along with all current year activity, have been accounted for within the Reserve for OPEB Related Benefits in fiscal year 2008. Statement No. 45 does not require retroactive application of the reporting changes, therefore fiscal year 2007 information has not been restated.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2008, we concluded our Vision ORS technology project by integrating additional tools to further streamline our processes and conduct our business more efficiently. One of the enhancements most visible to the public is miAccount, a web-based, self-service interactive system that allows active and retired members to safely access their personal retirement information, review and update personal information, and be more actively involved in their retirement planning. Additional accomplishments are highlighted below.

Focus on Our Customer

Streamlined operations helped reduce expenses - As fiscal year 2007-08 unfolded with state government facing a serious financial deficit, ORS worked diligently to improve customer services while reducing expenses. On the processing side of our operations, we’ve placed greater emphasis on retirees enrolling in electronic funds transfer (EFT, or direct deposit) which provides the pension recipient with a more secure way to receive pension payments, and saves us processing costs. We’ve also enhanced our EFT options, allowing them to split their payment between two accounts, either at the same financial institution or at different institutions.

We implemented new group counseling sessions to better serve our Detroit customer base. These sessions help customers understand their pension estimate and the application process while providing face-to-face reassurance that they’re not missing anything before submitting their retirement application. Besides reaching multiple customers at once with fewer resources, the group sessions reduce walk-in traffic and reduce the number of incomplete applications that need to be returned.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Education efforts target younger members - ORS continues to address the urgent need for workers to plan and save for retirement earlier in their career. With our new active member newsletter, *PROactive*, sent with the annual *Member Statement*, we're able to reach members sooner with information on how best they can prepare for a secure future.

Customer contact options expanded - Through our websites, seminars, and publications, ORS continues to offer customers easily accessible sources of clear, concise information about their retirement plan. As more of our customers use these tools, they become more knowledgeable about their plan and have less need to contact us with basic retirement plan questions, freeing staff to respond to more complicated inquiries.

During fiscal year 2008 our Customer Service staff answered 215,949 customer telephone calls, assisted 6,952 customers face-to-face, and responded to 14,072 emails. We also introduced a new secure online message board as part of miAccount where customers receive a response to their questions within 12 business hours.

Continuously Improve Processes

Member ID replaces social security number references - Safeguarding our members' identity and financial information has always been a high priority for ORS. This year we initiated a process to use a unique Member ID number as our account reference number, rather than the customer's social security number (SSN). Members use their Member ID to set up and access account data through miAccount, which offers a secure environment for all online transactions. Member IDs also appear on EFT statements, personalized forms and letters sent from ORS, annual member statements, and other correspondence.

Staff trained on security awareness and identity theft protection - All ORS staff participated in mandatory security awareness and identity theft protection training, in response to the June 2007 amendment to the Identity Theft Protection Act (2004 PA 454). Everyone learned to identify a security risk versus a security breach, how to prevent security breaches, and what procedures to follow if one occurs. This training was incorporated into our new hire orientation as well, so it will remain a significant part of our culture.

Promote a Positive Work Environment

Staff engaged in strategic planning - Last year, staff from throughout ORS helped craft strategic goals that would direct ORS for the next three years. This endeavor allows the people who serve our customers to guide the organization's future direction, and to have a sense of ownership for these goals. The objectives are being included in our business plans over the next three years.

Cross-training enhances business operations and staff flexibility - Over the past several years, as we implemented new technology and automated many of our processes, day-to-day tasks have changed dramatically. With the elimination of many tedious manual operations, we've seen our business needs shift. We now have more staff resources dedicated to interacting directly with customers. We've also realized gains in our operations by cross-training staff so they are ready and able to assist wherever the workloads are the heaviest.

Celebrations, open forums, and recognition events help improve morale - This year ORS had much to celebrate. We implemented the last stages of Vision ORS, a tremendous endeavor that has totally revamped our retirement processing system from how we collect employee wage and contribution data to how we process pensions. In spite of tough economic times, we found ways to offer many thanks for jobs well done, completion of special projects, and innovative solutions. The Department of Management and Budget honored ORS employees with two of its five prestigious Employee Excellence Awards.

Semiannual ORS all-staff meetings provided opportunities for sharing business updates, responding to questions, and welcoming new staff. Two all-staff planning committees, comprised of staff volunteers from throughout ORS, determined each agenda and coordinated the meetings.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Optimize Technology

Forms, Letters, Barcode project reduces processing time - This year ORS implemented an integrated forms, letters, and barcoding solution that creates individually customized letters and forms, and print-on-demand information sheets. These documents are automatically imaged to the appropriate member's file then transmitted daily to the state's central facility for printing and mailing. The document images are immediately viewable by staff, allowing them to focus on serving the customer rather than processing mail.

Incoming forms carry barcodes identifying the document type, member account, and the workflow to be initiated. By automating the incoming scanning and indexing process, there will be less human intervention and shorter waits before processing can begin.

miAccount offers secure, online access to personal account information - The new online account access tool, miAccount, generated considerable excitement this year and received accolades from customers and various outside organizations. Introduced to retirees in February and to active members in August, by the end of September, 23,580 registered miAccount users had completed 82,416 transactions or page views, a number that is steadily increasing. miAccount can be used to add or change a beneficiary, modify direct deposit accounts, change federal tax withholding, view past pension payments, check wage and service credit history, track contribution totals, create and save pension estimates, apply for retirement, or use a secure message board to correspond with staff about personal account information. The tool lets users conduct retirement-related business when it's convenient for them rather than being confined to traditional business hours.

Ever-changing technology requires updating - As more and more demands were placed on our equipment and technology, we needed to upgrade our hardware and software. This improved both online and batch processing time, and created system environment consistency for better disaster recovery and testing.

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

- Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2007 *Comprehensive Annual Financial Report*. Awarded by the Government Finance Officers Association of the United States and Canada, 2007 marks the 17th consecutive year to receive this prestigious award.
- Public Pension Standards 2008 Award For Funding and Administration for meeting standards for public retirement system management and administration. Awarded by the Public Pension Coordinating Council.
- The Midwest Technology Leaders Council honored miAccount with the 2008 Midwest Collaboration Award (MCA08), for a Michigan-based partnership that achieves a specific technology goal.
- *Government Technology* magazine recognized miAccount as the best new application to directly deliver services more efficiently and effectively to the public.
- 2007 Council of State Government Innovations Award Program. Placed in the finals for the Medicare Advantage program which streamlines plan administration and provides greater access to health care providers, cost sharing, and savings.

INTRODUCTORY SECTION

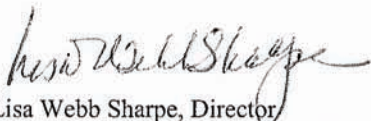
Letter of Transmittal (continued)

Acknowledgements

The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, advisors and the many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable employers and plan members to better evaluate and understand the Michigan State Police Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,



Lisa Webb Sharpe, Director
Department of Management and Budget



Phillip J. Stoddard, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members *

Lieutenant Colonel Kriste Etue
Representing Director, Dept. of State Police
Statutory Member

Sally Corbin
General Public
Term Expires December 31, 2009

Vernon Johnson
Representing State Treasurer
Statutory Member

George M. Elworth
Representing Attorney General
Statutory Member

Cheryl Schmittiel
Representing Director, Office of State
Employer
Statutory Member

Lieutenant Joseph Thomas
Representing Lieutenants and Above
Term Expired December 31, 2007

Sergeant Richard Hale, Chair
Representing Sergeants and Below
Term Expires December 31, 2009

Craig Murray
Representing Deputy Auditor General
Statutory Member

Diane Garrison
Retiree Member
Term Expires December 31, 2008

* Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuaries

Gabriel Roeder Smith & Co.
Alan E. Sonnanstine
Southfield, Michigan

Auditors

Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

Investment Manager and Custodian

Robert J. Kleine
State Treasurer
State of Michigan

Legal Advisor

Mike Cox
Attorney General
State of Michigan

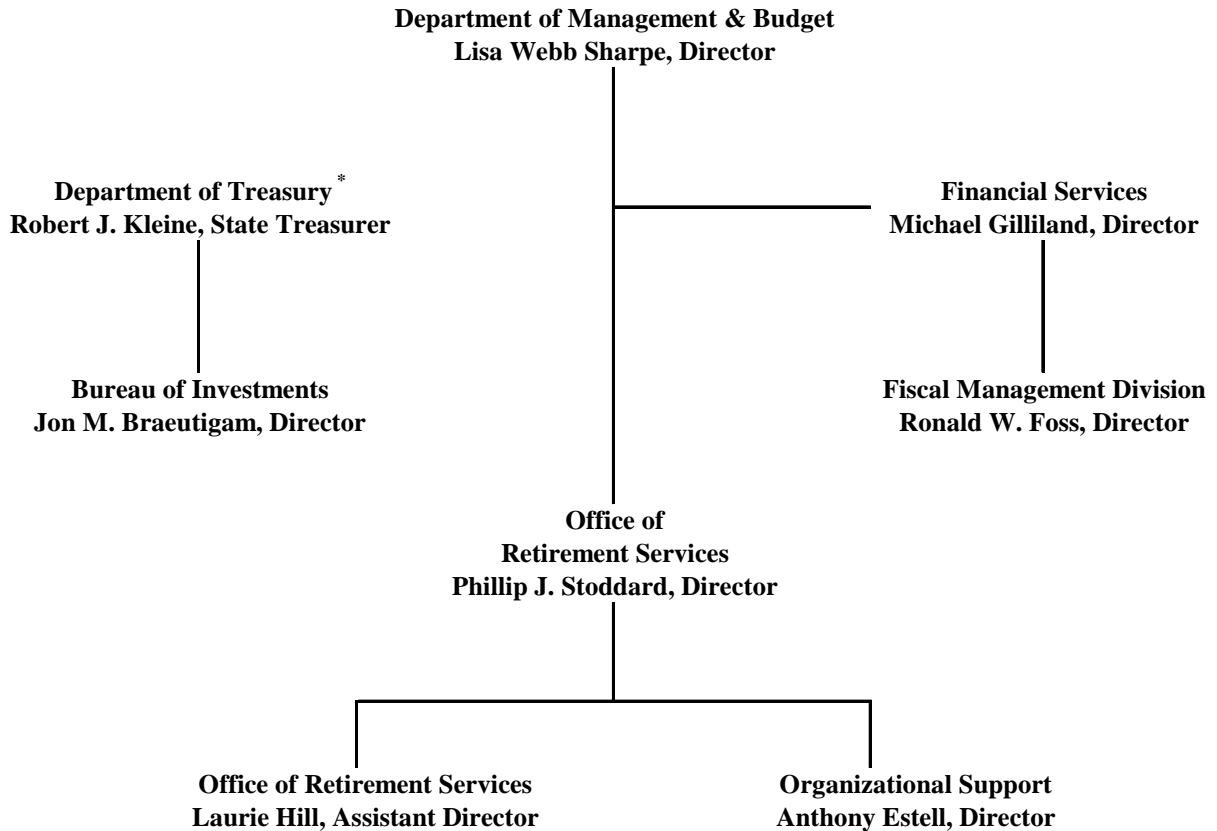
Investment Performance Measurement

State Street Corporation
State Street Investment Analytics
Boston, MA

INTRODUCTORY SECTION

Administrative Organization (continued)

Organization Chart



* The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions, for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.

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FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information
Notes to Required Supplementary Information
Supporting Schedules

FINANCIAL SECTION

Independent Auditor's Report



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Ms. Lisa Webb Sharpe, Director, Department of Management and Budget
Mr. Phillip Stoddard, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan State Police Retirement System Board

We have audited the accompanying statements of pension plan and other postemployment benefit plan net assets of the Michigan State Police Retirement System, as of September 30, 2008 and 2007, and the related statements of changes in pension plan and other postemployment benefit plan net assets for the years then ended. These financial statements are the responsibility of the Management of the Michigan State Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan State Police Retirement System, as of September 30, 2008 and 2007, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008 on our consideration of the Michigan State Police Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Independent Auditor's Report (continued)

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of Management regarding the methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules are the responsibility of the Michigan State Police Retirement System's Management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 12, 2008

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Police Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded its liabilities at the close of fiscal year 2008 by \$1.1 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2007, the funded ratio was approximately 86.7% for pension benefits and the funded ratio for other postemployment benefits was 0.0%.
- Revenues for the year were (\$136.8) million, which are comprised primarily of contributions of \$65.1 million and investment losses of (\$202.5) million.
- Expenses increased over the prior year from \$114.4 million to \$120.7 million or 5.5%. This increase represented increased retirement benefits paid, and the implementation of GASB No. 45 resulted in increases in transfers to other systems and administrative expenses of the trust.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 24) and *The Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 25). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedules of Funding Progress (page 43) and Schedules of Employer Contributions (page 44) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2008, were \$1.3 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased \$339.2 million or (20.8)% from fiscal year 2007 due primarily to a decreases in invested assets, and increased \$235.9 million or 16.9% between fiscal years 2006 and 2007 due primarily to favorable operating results and increases to invested assets (primarily collateral on loaned securities).

Total liabilities as of September 30, 2008, were \$197.0 million and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased \$85.8 million or (30.3)% between fiscal years 2007 and 2008 due primarily to a decrease in obligations under securities lending, and increased \$95.1 million or 50.7% between fiscal years 2006 and 2007, due primarily to an increase in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2008 by \$1.1 billion. Total net assets held in trust for pension and OPEB decreased \$253.4 million or (18.8)% between fiscal years 2007 and 2008. The decrease is the result of decreases in invested assets for the year. Total net assets in fiscal year 2007 increased by \$140.8 million or 11.7% from the prior year.

Net Assets (in thousands)

	2008	Increase (Decrease)		2007	Increase (Decrease)		2006
Assets							
Cash	\$ 19,831	295.9 %	\$	5,009	23.3 %	\$	4,064
Receivables	4,701	86.8		2,516	(18.6)		3,090
Investments	1,264,098	(22.0)		1,620,354	17.0		1,384,848
Total Assets	<u>1,288,630</u>	<u>(20.8)</u>		<u>1,627,879</u>	<u>16.9</u>		<u>1,392,002</u>
Liabilities							
Warrants outstanding	145	(25.6)		195	(5.3)		206
Accounts payable and other accrued liabilities	6,106	6,918.4		87	(13.0)		100
Obligations under securities lending	190,786	(32.5)		282,597	50.8		187,448
Total Liabilities	<u>197,037</u>	<u>(30.3)</u>		<u>282,879</u>	<u>50.7</u>		<u>187,754</u>
Total Net Assets	<u>\$ 1,091,593</u>	<u>(18.8) %</u>	<u>\$</u>	<u>1,345,000</u>	<u>11.7 %</u>	<u>\$</u>	<u>1,204,248</u>

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and other postemployment benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2008 totaled (\$136.8) million.

Total additions decreased \$391.9 million from those of fiscal year 2007, due primarily to investment losses. Total additions increased \$61.9 million between fiscal years 2006 and 2007 due primarily to increased investment earnings. Total contributions increased between fiscal years 2007 and 2008 by \$11.7 million or 21.8%. This increase is due primarily to an increase in the contribution rate. Total contributions increased between fiscal years 2006 and 2007 by \$0.9 million or 1.6%. Investment income decreased from fiscal year 2007 by \$404.1 million. Investment income increased between fiscal years 2006 and 2007 by \$61.0 million. The Investment Section of this report reviews the results of investment activity for fiscal year 2008.

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2008 were \$120.7 million, an increase of 5.5% over fiscal year 2007 expenses.

The health, dental and vision care expenses during the year increased by \$0.6 million or 2.1% from \$29.1 million to \$29.7 million. This compares to a decrease of \$0.4 million or (1.5)% from \$29.5 million to \$29.1 million between fiscal years 2006 and 2007. Pension benefit payments increased by \$2.7 million or 3.1% between fiscal years 2007 and 2008, and by \$2.6 million or 3.2% between fiscal years 2006 and 2007. The increase in pension benefit expenses in 2008 resulted from an increase in retirees (3), and also an increase in the average benefit for each retiree. In fiscal year 2007, the increase in pension benefit expenses resulted primarily from an increase in retirees (23). Administrative expenses increased by \$1.5 million from \$0.4 million in fiscal year 2007 to \$1.9 million in fiscal year 2008, due primarily to the transfer of all retiree health related activity, including administrative fees paid to insurance carriers, from the State Sponsored Group Insurance (SSGI) Fund to the OPEB plan in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Note 5 to the basic financial statements describes the accounting change as required by GASB Statement No. 45. Administrative expenses increased by \$58,365 or 17.1% between fiscal years 2006 and 2007, due primarily to an increase in professional services during the year for special actuarial studies.

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets (in thousands)

	<u>2008</u>	<u>Increase (Decrease)</u>		<u>2007</u>	<u>Increase (Decrease)</u>		<u>2006</u>
Additions							
Member contributions	\$ 1,370	3.7 %	\$	1,321	(12.3) %	\$	1,507
Employer contributions	63,496	21.7		52,163	2.0		51,125
Net investment income (loss)	(202,514)	(200.4)		201,614	43.4		140,566
Other governmental contributions	278	-		-	-		-
Transfers from other systems/funds	551	-		-	-		-
Miscellaneous income	67	42.6		47	1,075.0		4
Total Additions	<u>(136,752)</u>	<u>(153.6)</u>		<u>255,145</u>	<u>32.1</u>		<u>193,202</u>
Deductions							
Pension benefits	87,590	3.1		84,930	3.2		82,317
Health Care benefits	29,672	2.1		29,060	(1.5)		29,493
Refunds of member contributions	-	(100.0)		1	(99.2)		143
Transfers to other systems	1,502	-		-	-		-
Administrative expenses	1,915	376.4		402	17.1		343
Total Deductions	<u>120,679</u>	<u>5.5</u>		<u>114,393</u>	<u>1.9</u>		<u>112,296</u>
Net Increase (Decrease)	(257,431)	(282.9)		140,752	74.0		80,906
Net Assets - Beginning of Year	<u>1,349,024</u> *	<u>12.0</u>		<u>1,204,248</u>	<u>7.2</u>		<u>1,123,342</u>
Net Assets - End of Year	<u>\$ 1,091,593</u>	<u>(18.8) %</u>	<u>\$</u>	<u>1,345,000</u>	<u>11.7 %</u>	<u>\$</u>	<u>1,204,248</u>

* The October 1, 2007 net assets have been restated by \$4,023,591 due to the implementation of GASB Statement No.45 described in Note 5 to the basic financial statements.

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced a decrease in 2008 after increases for both 2007 and 2006. This decrease is a result of a struggling national economy that resulted in net investment losses for fiscal year ended September 30, 2008. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations due, in part, to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

FINANCIAL SECTION

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FINANCIAL SECTION

Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Assets:						
Equity in common cash	\$ 12,280,275	\$ 7,550,972	\$ 19,831,247	\$ 5,009,460		\$ 5,009,460
Receivables:						
Amounts due						
from employer	3,854,899	763,963	4,618,862	2,432,195		2,432,195
Amounts due from other funds		52,716	52,716			
Interest and dividends	28,938	13	28,951	83,689		83,689
Total receivables	3,883,837	816,692	4,700,529	2,515,884	-	2,515,884
Investments:						
Short term investment pools	9,521,117	4,355	9,525,472	20,652,265		20,652,265
Fixed income pools	188,658,510	86,303	188,744,813	218,636,688		218,636,688
Domestic equity pools	473,324,627	216,525	473,541,152	627,788,771		627,788,771
Real estate pool	134,433,465	61,498	134,494,963	130,416,859		130,416,859
Alternative investment pools	210,623,712	96,351	210,720,063	188,050,550		188,050,550
International equities pools	100,817,635	46,120	100,863,755	152,211,843		152,211,843
Securities lending collateral	146,126,292	82,009	146,208,301	282,596,545		282,596,545
Total investments	1,263,505,358	593,161	1,264,098,519	1,620,353,521	-	1,620,353,521
Total assets	1,279,669,470	8,960,825	1,288,630,295	1,627,878,865	-	1,627,878,865
Liabilities:						
Warrants outstanding	145,153	66	145,219	194,863		194,863
Accounts payable and other accrued liabilities	80,131	6,026,102	6,106,233	87,373		87,373
Obligations under securities lending	190,703,885	82,009	190,785,894	282,596,545		282,596,545
Total liabilities	190,929,169	6,108,177	197,037,346	282,878,781	-	282,878,781
Net Assets Held in Trust for Pension and OPEB Benefits*	\$ 1,088,740,301	\$ 2,852,648	\$ 1,091,592,949	\$ 1,345,000,084	\$ -	\$ 1,345,000,084

*A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets

For Fiscal Years Ended September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	\$ 95,904	\$ 1,274,189	\$ 1,370,093	\$ 101,205	\$ 1,219,760	\$ 1,320,965
Employer contributions	34,364,943	29,131,474	63,496,417	24,323,324	27,840,439	52,163,763
Other governmental contributions		277,601	277,601			
Total contributions	34,460,847	30,683,264	65,144,111	24,424,529	29,060,199	53,484,728
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	(226,721,315)		(226,721,315)	175,536,957		175,536,957
Interest, dividends, and other	25,362,181	277,869	25,640,050	27,449,950		27,449,950
Investment expenses:						
Real estate operating expenses	(4,968)		(4,968)	(30,481)		(30,481)
Other investment expenses	(2,724,659)		(2,724,659)	(1,864,357)		(1,864,357)
Securities lending activities:						
Securities lending income	8,667,842		8,667,842	12,898,813		12,898,813
Securities lending expenses	(7,371,127)		(7,371,127)	(12,376,851)		(12,376,851)
Net investment income (loss)	(202,792,046)	277,869	(202,514,177)	201,614,031	-	201,614,031
Transfers from other systems/funds		551,314	551,314			
Miscellaneous income	23,405	44,036	67,441	46,558		46,558
Total additions	(168,307,794)	31,556,483	(136,751,311)	226,085,118	29,060,199	255,145,317
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	87,590,337		87,590,337	84,930,044		84,930,044
Health benefits		27,093,222	27,093,222		26,675,560	26,675,560
Dental/vision benefits		2,579,006	2,579,006		2,384,639	2,384,639
Refunds of member contributions				1,087		1,087
Transfers to other systems/funds		1,502,006	1,502,006			
Administrative expenses	361,652	1,553,172	1,914,824	401,570		401,570
Total deductions	87,951,989	32,727,406	120,679,395	85,332,701	29,060,199	114,392,900
Net Increase (Decrease)	(256,259,783)	(1,170,923)	(257,430,706)	140,752,417	-	140,752,417
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	1,345,000,084	4,023,571 ¹	1,349,023,655	1,204,247,667	-	1,204,247,667
End of Year ²	\$ 1,088,740,301	\$ 2,852,648	\$ 1,091,592,949	\$ 1,345,000,084	\$ -	\$ 1,345,000,084

¹ Restated

² A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements September 30, 2008 and 2007

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan State Police Retirement System (System) is a single employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), created under Public Act 251 of 1935, recodified and currently operating under Public Act 182 of 1986. Section 7 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to Michigan State Police. In addition, the System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the State Police Retirement Act. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code.

The System's financial statements are included as a pension and other employee benefit trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2008, and 2007 the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2008	2007 *
Regular benefits	2,136	2,150
Survivor benefits	436	420
Disability benefits	164	163
Total	2,736	2,733
Current employees:		
Vested	1,241	1,123
Non-vested	419	497
Total	1,660	1,620
DROP program participants	146	148
Inactive employees entitled to benefits and not yet receiving them	31	13
Total all members	4,573	4,514

* Restated based on more complete information provided by the actuary.

Enrollment in the health plan is voluntary. The number of participants is as follows:

Health, Dental, and Vision Plans	2008	2007 *
Eligible participants	2,736	2,733
Participants receiving benefits:		
Health	2,431	2,428
Dental	2,415	2,414
Vision	2,420	2,419

* Restated based on more complete information provided by the actuary.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

BENEFIT PROVISIONS -- PENSION

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 182 of 1986, Michigan State Police Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who leaves Michigan State Police employment may request a refund of his or her member contribution account. The System is currently non-contributory. A refund cancels a former member's rights to future benefits and there is no provision for repaying the refund of contributions to restore the service represented by the refund.

Regular Retirement

The retirement benefit is available if a member retires after 25 years of credited service (employment). The retirement benefit equals 60% of a member's final average compensation and is payable monthly over the lifetime of a member. Final average compensation is the average annual salary for a member's last two years of service with the Department of State Police.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of 50 is a deferred member and is entitled to receive a monthly allowance upon reaching age 50, provided the member's accumulated contributions have not been refunded. The deferred benefit is equal to two percent of the final average compensation times the years and partial years of service credit.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as an employee of the Michigan State Police is eligible for a non-duty disability pension. The non-duty disability benefit is 2.4% of the final average compensation times years and partial years of credited service (but not more than 25 years).

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a Michigan State Police Officer is eligible for a duty disability pension. The amount, payable monthly, is equal to 60% of the final average compensation.

Survivor Benefit

Upon the death of a member who completed at least 10 years of service, the surviving spouse receives a benefit based on 2.4% of the final average compensation for each year and partial year of credited service. If there is no spouse, surviving children are entitled to equally share the benefit until age 18. If death occurs in the line of duty, the surviving spouse receives a benefit of 60% of the final average compensation. Children receive \$100 each month until age 18. A \$1,500 funeral expense is also authorized by State statute.

Post Retirement Adjustments

Effective October 1, 1996, the monthly pension was increased 10% if certain requirements were met. This was a one time increase.

Each October 1, the benefits of all pension recipients increase 2% (not to exceed \$500). This non-compounding increase is paid to persons who have been retired 12 months.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Contributions

Member Contributions - Members currently participate on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military, maternity or paternity leave, Peace Corps or VISTA service. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit are refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions - The statute requires that the employer contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles so that the contribution rates do not have to increase over time. A chart showing the employer contribution rates is included on the Schedule of Revenues by Source in the Statistical Section.

Deferred Retirement Option Plan

Public Act 83 of 2004 amended the State Police Retirement Act to create a Deferred Retirement Option Plan (DROP) for members with 25 years of service. This benefit program allows state police who are eligible to retire to defer their retirement and keep working for up to six years. The participant's pension amount is calculated on the day before the DROP period starts, and a percentage of the equivalent monthly pension is credited to an interest-bearing account in the participant's name. The DROP balance will be available at the time their DROP participation ends.

Banked Leave Time

Public Act 50 of 2004 amended the State Police Retirement Act to include Banked Leave Time (BLT) for members. BLT is an extension of the State's current annual leave program, which banks a predetermined number of hours per pay period. However, the BLT program will not have an effect on a member's Final Average Compensation calculation.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions of the postemployment benefit plan are established by State statute, which may be amended. Public Act 182 of 1986, as amended, establishes eligibility and benefit provisions for the OPEB plan. Members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. There are no ad hoc or automatic increases. The State Police Retirement Act requires joint authorization by DMB and the Civil Service Commission to make changes to retiree medical benefit plans.

Under the Michigan State Police Retirement Act, all retirees have the option of continuing health, dental, and vision coverage. Retirees with this coverage contribute 5%, 10%, and 10% of the monthly premium amount for the health, dental, and vision coverage, respectively. The State funds 95% of the health and 90% of the dental and vision insurance. The employer payroll contribution rate to provide these benefits was 25.0% and 23.0% for 2008 and 2007, respectively.

The State Health Plan PPO is by far the most often selected health care option. This plan includes comprehensive coverage traditionally referred to as basic and major medical, with full coverage for most services received in-network after an annual deductible is met. Preventive services are not subject to a deductible and are fully covered if received in-network subject to an annual maximum. Both retail and mail order prescription drug coverage is included. Retiree health, dental, and vision plan benefits have generally matched those in place for active employees.

Retirees are also provided with life insurance coverage equal to 25% of the active life insurance coverage, \$1,000 for spouse and \$1,000 for each dependent under the age of 23. Premiums are fully paid by the State.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

The number of participants and other relevant financial information are as follows:

Health, Dental, and Vision Plans	2008	2007 *
Eligible participants	2,736	2,733
Participants receiving benefits:		
Health	2,431	2,428
Dental	2,415	2,414
Vision	2,420	2,419
Expenses for the year	\$ 32,727,406	\$ 29,060,199
Employer payroll contribution rate	25.0%	23.0%

* Restated based on more complete information provided by the actuary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Reserves

Public Act 182 of 1986, as amended, created the Reserve for Employee Contributions, Reserve for Employer Contributions, Reserve for Retired Benefit Payments, Reserve for Undistributed Investment Income, and Reserve for Health (OPEB) Related Benefits. The financial transactions of the System are recorded in these reserves as required by Public Act 182 of 1986, as amended.

Reserve for Employee Contributions - Members do not contribute to this reserve except to purchase eligible service credit. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and unclaimed amounts transferred to the income reserve. At September 30, 2008, and 2007, the balance in this reserve was \$701.4 thousand and \$651.7 thousand, respectively.

Reserve for Employer Contributions - All employer contributions are credited to this reserve. Interest from the Reserve for Undistributed Investment Income is credited annually. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. At September 30, 2008, and 2007, the balance in this reserve was \$10.1 million and \$20.4 million, respectively.

Reserve for Retired Benefit Payments - This represents the reserve for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions. Monthly benefits, which are paid to the retirees, reduce this reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. Also included are reserves for casualty experience (injury or death of a member, or vested former member). The initial actuarial casualty valuation determined the full funding reserve requirements to be allocated from assets of the reserve. All retiree casualty payments are made from this reserve. At September 30, 2008, and 2007, the balance in this reserve was \$1,005.6 million and \$969.3 million, respectively.

Reserve for Undistributed Investment Income - The net investment earnings (losses) are recorded in this reserve. Interest as authorized by the board is transferred annually to the other reserves. Administrative expenses are paid from this reserve. At September 30, 2008, and 2007, the balance of this reserve was \$72.3 million and \$354.7 million, respectively.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Reserve for Health (OPEB) Benefits - This reserve is credited with employer contributions for retirees' health (including prescription coverage, dental, and vision) benefits. The required contribution is based on pay-as-you-go funding. It represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. However, the actual annual contributions have been less than the annual required contribution (ARC). From this reserve, the System pays 95% of the premiums for hospitalization and medical coverage insurance and 90% of the monthly premium for dental and vision coverage insurance. At September 30, 2008, the balance in this reserve was \$2.9 million. In fiscal year 2007 the expenses exceeded revenues by \$1.2 million, prior to a return of \$1.2 million to the System by the SSGI Fund. The balance in this reserve at September 30, 2007, prior to implementation of Governmental Accounting Standards Board (GASB) Statement No. 45, was \$0.0.

In fiscal year 2008, the State of Michigan adopted the reporting requirement promulgated by the Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. For fiscal years 2007 and previous, retiree related OPEB activity was accounted for in the State Sponsored Group Insurance (SSGI) Fund which, under section 204 of Public Act 431 of 1984, as amended, bore the risk of any losses in years where expenses exceeded revenues. The SSGI Fund is reported as an internal service fund in the State of Michigan's Comprehensive Annual Financial Report and GASB Statement No. 10 was the relevant guidance for retiree related OPEB. GASB Statement No. 45 amends GASB Statement No. 10 to require the exclusion of retiree OPEB activity from the SSGI Fund and accounting for it separately in other employee benefit trust funds. All retiree related activity from the SSGI Fund, including the restatement of October 1, 2007 accumulated net assets in the amount of \$4,023,571, is included in the reserve for OPEB related benefits.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments, which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

Leases and Services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	<u>2008</u>	<u>2007</u>
Building Rentals	\$ 8,582	\$ 7,395
Technological Support	87,302	85,935
Attorney General	37,940	37,245
Investment Services	265,830	240,125
Personnel Services	88,477	84,383

Cash — On September 30, 2008, and 2007, the System had \$19.8 million and \$5.0 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$24,980 and \$99,430 for the years ended September 30, 2008, and 2007, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 3 – CONTRIBUTIONS AND FUNDED STATUS

Contributions

Members currently participate in the System on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave. The State is required by Public Act 182 of 1986, as amended, to contribute amounts necessary to finance the benefits of its employee and retiree OPEB. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a 28 year period for the 2008 fiscal year and a 29 year period for the 2007 fiscal year. For OPEB, the unfunded (overfunded) actuarial accrued liability is amortized over a maximum period of 30 years.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Actual employer contributions for retirement benefits were \$34.4 million and \$24.3 million for fiscal years 2008 and 2007, respectively, representing 20.6% of annual covered payroll for the year ended September 30, 2007. The fiscal year 2008 annual covered payroll is not yet available. Required employer contributions, based on previous year actuarial valuations, for pensions included:

1. \$21.9 million and \$21.5 million for fiscal years 2008 and 2007, respectively, for the normal cost of pensions representing 18.5% and 18.5% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.
2. \$11.8 million and \$10.9 million for fiscal years 2008 and 2007, respectively, for amortization of underfunded actuarial accrued liability representing 10.0% and 9.4% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

Actual employer contributions for OPEB were \$29.1 million and \$27.8 million for fiscal years 2008 and 2007, respectively, representing 23.6% of annual covered payroll for the year ended September 30, 2007. The fiscal year 2008 annual covered payroll is not yet available. Required employer contributions, based on previous year actuarial valuations, for OPEB included:

1. \$24.5 million and \$25.3 million for fiscal years 2008 and 2007, respectively, for the normal cost of OPEB representing 20.7% and 21.8% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.
2. \$34.5 million and \$34.4 million for fiscal years 2008 and 2007, respectively, for amortization of unfunded actuarial accrued liability representing 29.2% and 29.7% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

The system is required to reconcile with actuarial requirements annually. Any funding excess or deficiency for pension benefits is smoothed over five years. One-fifth (20%) of the funding excess or deficiency is included in each of the subsequent years' contribution, and is not recognized as a payable or receivable in the accounting records.

Funded Status

The employer is required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2007, the actuarial accrued liability (AAL) for pension benefits was \$1.5 billion, and the actuarial value of assets was \$1.3 billion, resulting in an unfunded actuarial accrued liability (UUAL) of \$192.7 million and a funded ratio of 86.7%. The covered payroll (annual payroll of active employees covered by the plan) was \$118.2 million, and the ratio of the UAAL to the covered payroll was 163.0%.

For fiscal year 2007, the actuarial accrued liability (AAL) for OPEB was \$918.1 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$918.1 million and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was \$118.2 million, and the ratio of the UAAL to the covered payroll was 776.7%.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan net assets for both pension and OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25 for pension contributions and GASB Statement No. 43 for OPEB contributions.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date	9/30/2007
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Percent of Payroll, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period	29 years *
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return--Pension	8.0%
Investment Rate of Return--OPEB	4.0%
Projected Salary Increases	3.5% - 93.5%
Cost-of-Living Pension Adjustments	2% Annual Non-Compounded with Maximum Annual Increase of \$500 for those eligible
Healthcare Cost Trend Rate	9.5% Year 1 graded to 3.5% Year 11
Other Assumptions OPEB only:	
Opt Out Assumption	6% of eligible participants are assumed to opt out of the retiree health plan
Survivor Coverage	85% of male retirees and 70% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at Retirement	85% of male and 70% of female future retirees are assumed to elect coverage for 1 or more dependents

* Based on the provisions of GASB Statement Nos. 25, 43 and 45 when the actuarial accrued liability for a defined benefit pension plan is underfunded or overfunded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.

NOTE 4 - INVESTMENTS

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the Act and up to 20% of the System's assets in investments not otherwise qualified under the Act as described in section 20(d).

Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock, and direct investments.

Derivatives

The State Treasurer employs the use of derivatives in the investment of the pension and other employee benefit trust (the trust) funds.

Derivatives are used in managing the trust funds' portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total funds' portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 5.0% of market value of total pooled assets on September 30, 2008, and 6.6% of market value of total pooled assets on September 30, 2007. Futures contracts represent the second largest category of derivatives used, and they represented 0.6% of market value of total pooled assets on September 30, 2008, and 0.2% of market value of total pooled assets on September 30, 2007.

To enhance management flexibility, the State Treasurer has traded futures contracts tied to Bond indices and Standard and Poor's indices. The bond futures are combined with the rest of the fixed income investments to manage interest rate risk. The Standard and Poor's futures contracts are combined with short-term investments or with underlying stock to replicate or enhance the return of the Standard and Poor's indices.

To diversify the trust funds' portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2008, and 2007, were \$79.5 million and \$67.8 million, respectively. Approximately one-half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the Retirement System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2008 to July 2011. U.S. domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2008, and 2007, international equity investment programs involving swaps, received realized gains and earned interest income of \$15.9 million and \$27.3 million, respectively.

The unrealized loss of \$24.5 million at September 30, 2008, primarily reflects the decrease in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three year basis.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

The respective September 30, 2008, and 2007, swap values are as follows:

	<u>Notional Value</u>	<u>Current Value</u>
9/30/2008 (dollars in millions)	\$ 79.5	\$ 56.8
9/30/2007 (dollars in millions)	67.8	88.7

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, by way of an Agreement, authorized Credit Suisse, the agent bank, to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the System's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans that the agent bank made on its behalf and the agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. (September 2008). However, there were no losses during the fiscal year resulting from the default of the borrower as the agent bank, Credit Suisse has indemnified the System and has actively been replacing all outstanding loans with Lehman Brothers.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2008, such assets had an average weighted maturity to next reset of 32 days and an average weighted maturity of 3.3 years. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2008, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2008, was \$190,785,894. The fair market value of assets held in the dedicated collateral account as managed by Credit Suisse and held by the custodian for the System as of September 30, 2008, was \$146,208,301. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2008, was \$173,777,026.

Gross income, including capital gains, from security lending for the fiscal year with Credit Suisse was \$8,667,842. Expenses associated with this income were the borrower's rebate of \$7,092,006 and fees paid to the agent bank of \$279,121.

Substantial volatility in the financial markets impacted the fair value estimates for securities lending collateral held at September 30, 2008. The System recorded an unrealized loss of \$44,577,593 at September 30, 2008 for securities lending collateral.

Risk

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices, and the risks associated with them. The credit risk (including custodial credit risk and concentration of credit risk), the interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro-rata share of the underlying investments as required by GASB Statement No. 40. These are held in internal investment pools and reported as such in the financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Credit Risk - Credit risk is the risk that an issuer will not fulfill its obligations.

- **Short-Term Fixed Income Investments** - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P) and Moody's Investor Service (Moody's), respectively. Borrowers must have at least \$400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrowers outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300.0 million.
- **Long-Term Fixed Income Investments** - These investments must be investment grade or better at the time of purchase unless specific requirements are met as defined by Public Act 314 of 1965, as amended, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2008, the System was in compliance with the policy in all material aspects.

Investment Type	Rated Debt Investments (In thousands of dollars) As of September 30, 2008 and 2007							
	2008				2007			
	Fair Value	S&P	Fair Value	Moody's	Fair Value	S&P	Fair Value	Moody's
Short Term	\$ 31,080	A-1	\$ 31,080	P-1	\$ 59,886	A-1	\$ 62,731	P-1
	-	NR	-	NR	6,388	NR	3,543	NR
U.S. Agencies - Sponsored	37,872	AAA	37,872	Aaa	76,297	AAA	76,297	Aaa
Corporate Bonds & Notes	13,258	AAA	11,013	Aaa	16,814	AAA	15,556	Aaa
	13,920	AA	15,263	Aa	19,284	AA	21,219	Aa
	43,336	A	42,124	A	34,340	A	33,128	A
	20,393	BBB	21,452	Baa	13,574	BBB	14,644	Baa
	324	BB	379	Ba	385	BB	369	Ba
	81	B	26	B	90	B	-	B
	10	CCC	69	Caa	-	CCC	39	Caa
	-	CC	8	Ca	-	CC	-	Ca
	-	C	2	C	-	C	-	C
	5	D	-	D	-	D	-	D
	2,195	NR	3,186	NR	3,707	NR	3,239	NR
International ¹	11,088	AAA	11,088	Aaa	7,094	AAA	7,094	Aaa
	28,665	AA	32,139	Aa	20,376	AA	33,705	Aa
	31,645	A	31,381	A	9,788	A	2,153	A
	5,358	NR	2,148	NR	7,843	NR	2,149	NR
Securities Lending Collateral ²	44,448	AAA	45,667	Aaa	-	-	-	-
	37,980	AA	43,052	Aa	-	-	-	-
	39,350	A	33,695	A	-	-	-	-
	10,162	BBB	16,113	Baa	-	-	-	-
	2,006	BB	93	Ba	-	-	-	-
	432	B	1,534	B	-	-	-	-
	427	D	-	D	-	-	-	-
	11,081	NR	2,732	NR	-	-	-	-
Total	<u>\$ 385,116</u>		<u>\$ 382,116</u>		<u>\$ 275,866</u>		<u>\$ 275,866</u>	

NR - not rated

¹ International Investment types consist of domestic floating rate note used as part of a Swap strategy.

² Securities Lending Collateral ratings are not available at September 30, 2007.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

- The counterparty; or
- The counterparty's trust department or agent but not in the government name.

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of AA at September 30, 2008. As of September 30, 2008, and 2007, government securities with a market value of \$533.0 thousand and \$536.0 thousand, respectively, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by Public Act 314 of 1965, as amended, from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a System's assets in the obligations of any one issuer.

At September 30, 2008, and 2007, there were no investments in any single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

Interest Rate Risk - Fixed Income Investments - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2008, and 2007, the fair value of the System's prime commercial paper was \$31.1 million and \$66.1 million with the weighted average maturity of 5 days and 12 days, respectively.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the trust funds are invested with a long-term strategy. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration and higher interest rates result in longer duration.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Debt Securities (in thousands) As of September 30, 2008 and 2007

	2008		2007	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	\$ 2,260	6.8	\$ 11,327	4.8
U. S. Agencies - Backed	47,328	5.4	35,159	5.7
U. S. Agencies - Sponsored	37,872	4.1	76,297	3.3
Corporate	93,522	5.4	88,194	4.9
International*				
U. S. Treasury		0.0	2,139	0.1
Corporate	76,756	0.03	45,101	0.1
Total	<u>\$ 257,738</u>		<u>\$ 258,217</u>	

Debt Securities are exclusive of Securities Lending Collateral.

*International contains U.S. Government and Corporate Debt Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in Public Act 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2008, and 2007, the total amount of foreign investment subject to foreign currency risk was \$80.5 million and \$109.7 million which amounted to 7.1% and 8.2% of total investments (exclusive of securities lending collateral) of the System, respectively.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Foreign Currency Risk

(in thousands)

As of September 30, 2008

Region	Country	Currency	Alt. Invest.	Equity	Real Estate	International	
			Market Value	Market Value	Market Value	Equities	Derivatives
			in U.S. \$	in U.S. \$	in U.S. \$	Market Value in U.S. \$	Market Value in U.S. \$ *
<u>AMERICA</u>							
	Brazil	Real		\$ 2			
	Canada	Dollar				\$ 135	
	Mexico	Peso		1,105			
<u>EUROPE</u>							
	European Union	Euro	\$ 21,018	1,685		799	\$ (2,089)
	Switzerland	Franc		1,656		80	(356)
	Sweden	Krona				24	(86)
	Denmark	Krone				30	(82)
	Norway	Krone				20	(106)
	U.K.	Sterling	845	11		405	(2,162)
<u>PACIFIC</u>							
	Australia	Dollar				99	(902)
	China	Renminbi		201			
	Hong Kong	Dollar				20	(237)
	Japan	Yen	96	2,336		241	(1,276)
	Singapore	Dollar				34	(113)
	South Korea	Won					(539)
<u>MIDDLE EAST</u>							
	Israel	Shekel		6			
<u>VARIOUS</u>							
					\$ 17,137	40,425	
	Total		\$ 21,959	\$ 7,002	\$ 17,137	\$ 42,312	\$ (7,948)

* International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2008 through July 2011 with an average maturity of 1.8 years.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Foreign Currency Risk

(in thousands)

As of September 30, 2007

Region	Country	Currency	Alt. Invest.	Equity	Real Estate	International						
			Market Value	Market Value	Market Value	Equities	Derivatives					
			in U.S. \$	in U.S. \$	in U.S. \$	Market Value in U.S. \$	Market Value in U.S. \$ *					
<u>AMERICA</u>												
	Canada	Dollar				\$	1,251					
	Mexico	Peso		\$	2,159							
<u>EUROPE</u>												
	European Union	Euro	\$	17,373	1,229		4,939	\$	4,445			
	Switzerland	Franc			1,457		911		824			
	Sweden	Krona					406		255			
	Denmark	Krone			20		270		73			
	Norway	Krone					321		48			
	U.K.	Sterling		708	101		2,432		1,848			
<u>PACIFIC</u>												
	Australia	Dollar					1,202		763			
	China	Renminbi			277							
	Hong Kong	Dollar					439		719			
	India	Rupee			13							
	Japan	Yen		119	3,650		2,904		1,133			
	Singapore	Dollar					155		125			
	South Korea	Won					453		633			
<u>VARIOUS</u>					\$	11,747	44,250					
	Total		\$	18,200	\$	8,906	\$	11,747	\$	59,933	\$	10,866

* International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2007 through September 2010 with an average maturity of 1.2 years.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

NOTE 5 – ACCOUNTING CHANGES AND RESTATEMENT

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, has been adopted by the State of Michigan for fiscal year 2008. Statement No. 45 prohibits the reporting of retiree related postemployment benefits within the State Sponsored Group Insurance Fund, an internal service fund administratively established to provide health, long-term disability, life, vision and dental coverage for participating employees and retirees. Beginning October 1, 2007, all retiree related activity, including an equity transfer of \$4,023,571 in accumulated net assets, is included in the Statements of OPEB Plan Net Assets and Changes in OPEB Plan Net Assets as reflected in this report.

The GASB has issued Statement No. 50, *Pension Disclosures*, which amends GASB Statements No. 25 and No. 27, and more closely aligns the financial reporting requirements for pensions with those for OPEB. This statement was implemented in fiscal year 2007.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Under the Administrative Procedures Act, members may appeal a decision by the Board. Once the administrative procedure has been exhausted, the decision may be appealed in Michigan's court system. Various cases that have exhausted the administrative procedures have been appealed in the court system. These cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

NOTE 7 – SUBSEQUENT EVENTS

Since the close of the fiscal year, financial markets have experienced substantial volatility. Faced with the potential of increased problems in the financial markets, the Federal Reserve Board (Fed) and the U.S. Department of Treasury implemented the Troubled Asset Relief Program (TARP) to free up liquidity to be used in the broader economy. Frozen credit markets are expected to continue to impact the economy and all investments.

FINANCIAL SECTION

Required Supplementary Information

Schedules of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Pension Benefits (\$ in millions)						
Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1998	\$ 974.4	\$ 943.7	\$ (30.6)	103.2 %	\$ 108.2	(28.3) %
1998 ²	974.4	962.5	(11.9)	101.2	108.2	(11.0)
1999	1,036.8	1,006.5	(30.3)	103.0	116.9	(25.9)
2000	1,113.1	1,040.7	(72.4)	107.0	116.6	(62.1)
2001	1,148.6	1,073.6	(75.0)	107.0	118.8	(63.1)
2002	1,141.3	1,135.7	(5.6)	100.5	124.4	(4.6)
2003	1,139.1	1,186.4	47.3	96.0	113.2	41.8
2004 ³	1,117.7	1,255.8	138.1	89.0	119.7	115.4
2005	1,090.3	1,300.3	210.0	83.8	117.6	178.5
2006	1,113.5	1,385.9	272.4	80.3	115.9	235.0
2006 ¹	1,204.2	1,385.9	181.7	86.9	115.9	156.8
2007	1,259.1	1,443.7	184.6	87.2	118.2	156.2
2007 ⁴	1,259.1	1,451.9	192.7	86.7	118.2	163.0

1 Change in asset valuation method.

2 Assumption change.

3 Revised actuarial assumptions and benefit provisions.

4 Revised benefit provisions.

Other Postemployment Benefits (\$ in millions)						
Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006	\$ -	\$ 944.4	\$ 944.4	0.0 %	\$ 115.9	814.9 %
2007	-	918.1	918.1	0.0 %	118.2	776.7 %

FINANCIAL SECTION

Required Supplementary Information (continued)

Schedules of Employer Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
1999	\$ 22,733,833	\$ 21,609,520	95.1 %
2000	24,266,567	22,107,292	91.1
2001	21,989,439	24,064,039	109.4
2002	22,041,827	22,456,469	101.9
2003	26,683,625	25,931,762	97.2
2004	26,997,861	24,792,137	91.8
2005	32,151,494	26,607,572	82.8
2006	36,063,260	26,103,923	72.4
2007	32,386,761 ¹	24,323,324	75.1
2008	33,669,820	34,364,943	102.1

¹ Pursuant to Public Act 22 of 2007, the System's assets were revalued to their actual market value as of September 30, 2006. The five-year smoothing began again in fiscal year 2008.

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
2007	\$ 59,691,819	\$ 27,840,439	46.6 %
2008	59,027,965	29,131,474	49.4

FINANCIAL SECTION

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Because this is the second year the system is reporting other postemployment benefits in accordance with GASB Statement No. 43, only two years of historical trend information is provided.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedules of Funding Progress and Schedules of Employer Contributions are reported as historical trend information. The Schedules of Funding Progress are presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedules of Employer Contributions are presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

FINANCIAL SECTION

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For Fiscal Years Ended September 30, 2008 and 2007

	2008	2007
Personnel Services:		
Staff Salaries	\$ 57,425	\$ 57,535
Retirement and Social Security	17,533	14,594
Other Fringe Benefits	13,519	12,254
Total	88,477	84,383
Professional Services:		
Accounting	14,916	14,476
Actuarial	52,000	89,300
Attorney General	37,940	37,245
Audit	36,570	35,407
Consulting	4,081	3,878
Medical	-	9,584
Total	145,507	189,890
Building Equipment:		
Building Rentals	8,582	7,395
Equipment Purchase, Maintenance, and Rentals	675	547
Total	9,257	7,942
Miscellaneous:		
Travel and Board Meetings	215	220
Office Supplies	324	532
Postage, Telephone, and Other	24,266	28,364
Printing	6,304	4,304
Technological Support	87,302	85,935
Total	118,411	119,355
Total Administrative Expenses	\$ 361,652	\$ 401,570

Comparative Summary Schedule of OPEB Plan Administrative Expenses For Fiscal Years Ended September 30, 2007 and 2006

	2008	2007
Health Fees	\$ 1,404,211	
Dental Fees	112,273	
Vision Fees	36,689	
Total Administrative Expenses	\$ 1,553,172	-

The OPEB plan administrative expenses of \$1,553,172 in 2008 result from the transfer of all retiree related OPEB activity, including administrative fees paid to insurance carriers, from the State Sponsored Group Insurance Fund in accordance with GASB Statement No. 45.

FINANCIAL SECTION

Supporting Schedules (continued)

Schedule of Investment Expenses For Fiscal Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Real Estate Operating Expenses	\$ 4,968	\$ 30,481
Securities Lending Expenses	7,371,127	12,376,851
Other Investment Expenses*		
ORS-Investment Expenses	265,830	240,125
Custody Fees	26,570	28,977
Management Fees-Real Estate	265,889	102,877
Management Fees-Alternative	2,002,164	1,415,189
Management Fees-International	132,690	51,672
Research Fees	31,516	25,517
Total Investment Expenses	\$ 10,100,754	\$ 14,271,689

*Refer to Investment Section for fees paid to investment professionals.

Schedule of Payments to Consultants For Fiscal Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Independent Auditors	\$ 36,570	\$ 35,407
Consulting	4,081	3,878
Medical	-	9,584
Attorney General	37,940	37,245
Accounting	14,916	14,476
Actuary	52,000	89,300
Total Payment to Consultants	\$ 145,507	\$ 189,890

FINANCIAL SECTION

Supporting Schedules (continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)

For the Year Ended September 30, 2008

	Employee Contributions	Employer Contributions	Retired Benefit Payments ¹	Undistributed Investment Income	OPEB Related Benefits	Total
Additions:						
Contributions:						
Member contributions	\$ 95,904				\$ 1,274,189	\$ 1,370,093
Employer contributions		\$ 34,364,943			29,131,474	63,496,417
Other governmental contributions					277,601	277,601
Total contributions	95,904	34,364,943	-	-	30,683,264	65,144,111
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments				\$ (226,721,315)		(226,721,315)
Interest, dividends, and other				25,362,181	277,869	25,640,050
Investment expenses:						
Real estate operating expenses				(4,968)		(4,968)
Other investment expenses				(2,724,659)		(2,724,659)
Securities lending activities:						
Securities lending income				8,667,842		8,667,842
Securities lending expenses				(7,371,127)		(7,371,127)
Net investment income (loss)	-	-	-	(202,792,046)	277,869	(202,514,177)
Transfers from other systems/funds					551,314	551,314
Miscellaneous income			\$ 19,918	3,487	44,036	67,441
Total additions	95,904	34,364,943	19,918	(202,788,559)	31,556,483	(136,751,311)
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			87,590,337			87,590,337
Health benefits					27,093,222	27,093,222
Dental/vision benefits					2,579,006	2,579,006
Refunds of member contributions						-
Transfers to other systems/funds					1,502,006	1,502,006
Administrative expenses				361,652	1,553,172	1,914,824
Total deductions	-	-	87,590,337	361,652	32,727,406	120,679,395
Net Increase (Decrease)						
Before Other Changes	95,904	34,364,943	(87,570,419)	(203,150,211)	(1,170,923)	(257,430,706)
Other Changes in Net Assets:						
Interest allocation	20,682	1,632,547	77,542,410	(79,195,639)		-
Transfers upon retirement	(66,930)	(46,304,479)	46,371,409			-
Total other changes in net assets	(46,248)	(44,671,932)	123,913,819	(79,195,639)	-	-
Net Increase (Decrease)	49,656	(10,306,989)	36,343,400	(282,345,850)	(1,170,923)	(257,430,706)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	651,704	20,406,834	969,280,129	354,661,417	4,023,571 ²	1,349,023,655
End of Year	\$ 701,360	\$ 10,099,845	\$ 1,005,623,529	\$ 72,315,567	\$ 2,852,648	\$ 1,091,592,949

¹ Casualty Reserve is included.

² Restated

FINANCIAL SECTION

Supporting Schedules (continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)

For the Year Ended September 30, 2007

	Employee Contributions	Employer Contributions	Retired Benefit Payments*	Undistributed Investment Income	OPEB Related Benefits	Total
Additions:						
Contributions:						
Member contributions	\$ 101,205				\$ 1,219,760	\$ 1,320,965
Employer contributions		\$ 24,323,324			27,840,439	52,163,763
Total contributions	101,205	24,323,324	-	-	29,060,199	53,484,728
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments				\$ 175,536,957		175,536,957
Interest, dividends, and other				27,449,950		27,449,950
Investment expenses:						-
Real estate operating expenses				(30,481)		(30,481)
Other investment expenses				(1,864,357)		(1,864,357)
Securities lending activities:						
Securities lending income				12,898,813		12,898,813
Securities lending expenses				(12,376,851)		(12,376,851)
Net investment income (loss)	-	-	-	201,614,031	-	201,614,031
Miscellaneous income			\$ 44,583	1,975		46,558
Total additions	101,205	24,323,324	44,583	201,616,006	29,060,199	255,145,317
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			84,930,044			84,930,044
Health benefits					26,675,560	26,675,560
Dental/vision benefits					2,384,639	2,384,639
Refunds of member contributions		1,087				1,087
Administrative expenses				401,570		401,570
Total deductions	-	1,087	84,930,044	401,570	29,060,199	114,392,900
Net Increase (Decrease)						
Before Other Changes	101,205	24,322,237	(84,885,461)	201,214,436	-	140,752,417
Other Changes in Net Assets:						
Interest allocation	12,007	5,549,337	72,245,852	(77,807,196)		-
Transfers upon retirement	(15,132)	(78,831,457)	78,846,589			-
Total other changes in net assets	(3,125)	(73,282,120)	151,092,441	(77,807,196)	-	-
Net Increase (Decrease)	98,080	(48,959,883)	66,206,980	123,407,240	-	140,752,417
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	553,624	69,366,717	903,073,149	231,254,177	-	1,204,247,667
End of Year	\$ 651,704	\$ 20,406,834	\$ 969,280,129	\$ 354,661,417	\$ -	\$ 1,345,000,084

*Casualty Reserve is included.

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jon M. Braeutigam, Director

Report on Investment Activity

Asset Allocation

Investment Results

List of Largest Stock Holdings

List of Largest Bond Holdings

Schedule of Investment Fees

Schedule of Investment Commissions

Investment Summary

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports investment activity quarterly to the Investment Advisory Committee (Committee), which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. As of September 30, 2008, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), James B. Jacobs (public member), Keith W. Cooley (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

Investment policy states that the fiduciary will operate within standard investment practices of the prudent person and in accordance with Public Employee Retirement System Investment Act 314 of 1965. The fiduciary is authorized to invest in government obligations, corporate obligations, various short-term obligations, corporate (domestic and international) stocks, private equity interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, trust fund assets are to be invested for the exclusive benefit of the members of the System, in a fiduciary capacity.

The System's Proxy Voting Policy sets forth directives on the following issues: Boards of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the System's policy.

The primary function of the System is to provide retirement, survivor and disability benefits along with health and other postemployment benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The goals of the System are:

1. Achieve the optimal rate of return possible within prudent levels of risk.
2. Maintain sufficient liquidity to pay benefits.
3. Diversify assets to preserve capital and avoid large losses.
4. Meet or exceed the actuarial assumption over the long-term.
5. Perform in the top half of the public plan universe over the long-term.
6. Exceed individual asset class benchmarks over the long-term.
7. Operate in a cost-effective manner.

The strategy for achieving these goals is carried out by investing the assets of the System according to a two-year asset allocation model. The System currently invests in seven different asset classes, which provides for a well-diversified portfolio.

INVESTMENT SECTION

Report on Investment Activity (continued)

Asset Allocation (Excludes Collateral on Loaned Securities)

<u>Investment Category</u>	<u>As of 9/30/08 Actual %</u>	<u>Two-Year Target %</u>
Domestic Equities		34.0%
Domestic Equity - Active	26.4%	
Large Cap Core Pool	12.8%	
Large Cap Value Pool	4.2%	
Large Cap Growth Pool	5.2%	
Large Cap Sectors Pool	0.3%	
Large Cap Enhanced Pool	0.4%	
Manager of Managers Pool	0.3%	
Mid Cap Pool	2.1%	
Small Cap Pool	1.1%	
Domestic Equity - Passive	15.2%	
S&P 500 Index Pool	13.7%	
S&P Mid Cap Index Pool	1.5%	
International Equity	8.9%	17.0%
International Equity Pool - Passive	6.6%	
International Equity Pool - Active	2.3%	
Alternative Investments Pool	18.5%	16.0%
Real Estate Pool	11.8%	11.0%
Fixed Income	16.6%	17.0%
Government Bond Pool	6.9%	
Corporate Bond Pools	6.5%	
Fixed Income Bond Pools	3.0%	
Treasury Inflation Prot. Sec. Pool	0.0%	
CMBS Investment Pool	0.2%	
Short Term Investment Pool	2.6%	2.0%
Absolute Return	0.0%	2.0%
Real Return	0.0%	1.0%
TOTAL	<u>100.0%</u>	<u>100.0%</u>

INVESTMENT AUTHORITY

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

INVESTMENT SECTION

Report on Investment Activity (continued)

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2008, the total System's rate of return was (12.2)% as compiled by State Street Investment Analytics. Annualized rates of return for the three-year period ending September 30, 2008, were 5.2%; for the five-year period were 8.1%; and for the ten-year period were 5.9%.

Returns were calculated using a time-weighted rate of return in accordance with industry standards, unless a modification is described in the discussion of the reported return.

The fiscal year's results were driven by double-digit declines in equities. Modest gains in real estate, alternative investments, and fixed income helped to moderate the decline in equities. Large Cap domestic equities peaked early in the fiscal year and began trending down as the collapse of the sub-prime market continued to reveal weakness in the financial markets. The decline deepened throughout the year as growing uncertainty about the macro economy gave way to de-leveraging across many asset classes. Early gains in the Real Estate pool were somewhat offset by lower valuations in the back half of the year as turmoil in the housing market began to spread to the commercial real estate market. Alternative Investments yielded mid-single digit returns and were also hampered by tighter credit markets and general economic weakness. Fixed Income also contributed positive returns but these returns also were hurt late in the fiscal year as spreads widened in response to fear of default in investment grade debt.

For the fiscal year, the Dow Jones Industrial Average provided a total return of (19.9)%, while the broader based S&P 500 declined (22.0)%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 2.4%.

The U.S. economy grew at an estimated rate of 2.4% in fiscal year 2008 as measured by real gross domestic product. While the growth rate was steady through each of the quarters, the mix did change as domestic investment spending weakened, but was offset by strong export growth. Residential fixed investment spending remained weak throughout all four quarters. The continued decline in housing values throughout the period, combined with declining equity markets, led to a severe negative wealth impact, which slowed personal consumption each quarter. Commodity prices continued their upward climb through the fiscal year, which helped to push the inflation rate up from 2.4% in the first quarter of the fiscal year, to an estimated 4.3% in the fourth. However, as problem consumer loans weighed on the global financial system, credit conditions deteriorated, and the global economic growth began to slow, which started to bring down commodity prices late in the fourth quarter of the fiscal year. Oil started the year near \$80 a barrel, peaked near \$145, before dropping to near \$100 in late September.

The Federal Reserve continued to cut interest rates, moving the Federal Funds rate from 4.75% in September 2007, to 2.00% in September of 2008. Faced with the potential of increased problems in the financial markets, the Fed and Treasury proposed a distressed asset purchase plan to Congress that could act as a backstop to pricing for certain illiquid assets, and free up liquidity to be used in the broader economy.

The System remains well diversified, both across and within asset classes, and positioned to benefit from long-term moderate economic growth.

Large Cap Core Pool

The objective of the pool of large company core stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P 500 Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than \$5 billion that have passed several screens based on the stocks' valuation, risk attributes and tracking error relative to the overall index. The goal is to build a portfolio of stocks that will provide excess returns relative to the S&P 500 while providing minimal tracking error to the index. At times a portion of the pool may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

INVESTMENT SECTION

Report on Investment Activity (continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depositary Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with consideration of the weightings of the S&P 500 Index.

The following summarizes the weightings of the pool as of September 30, 2008:

Technology	22.5 %
Healthcare	16.8
Energy	11.1
Financials	10.6
Industrials	9.7
Other (ETFs)	8.9
Consumer Discretionary	8.5
Consumer Staples	3.8
Utilities	3.0
Materials	2.2
Telecom	2.1
Short Term Investments	0.8
Total	<u>100.0 %</u>

The System's Large Cap Core pool total rate of return was (22.3)% for fiscal year 2008. This compared with (22.0)% for the S&P 500 Index.

At the close of fiscal year 2008, the Large Cap Core pool represented 12.8% of total investments. This compares to 15.4% for fiscal year 2007. The following summarizes the System's 2.1% ownership share of the Large Cap Core pool at September 30, 2008:

Large Cap Core Pool (in thousands)

Short Term Pooled Investments	\$ 139
Equities	144,779
Settlement Principal Payable	(5,304)
Settlement Proceeds Receivable	5,733
Accrued Dividends	192
Total	<u>\$ 145,539</u>

Large Cap Value Pool

The objective of the pool of large company value stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P Citigroup Value Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than \$5 billion that are significantly under-priced as measured by several valuation criteria, including

INVESTMENT SECTION

Report on Investment Activity (continued)

price-to-earnings and price-to-book value ratios, as well as below fair value as determined by several quantitative and qualitative valuation models. The focus is on companies trading 25% or more below estimated fair value with experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depositary Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities among ten sectors with some consideration to the weightings of the S&P Citigroup Value Index.

The following summarizes the weightings of the pool as of September 30, 2008:

Financials	22.0 %
Healthcare	21.4
Short Term Investments	14.3
Consumer Discretionary	10.5
Technology	9.8
Consumer Staples	6.7
Energy	5.8
Other (ETFs)	3.1
Industrials	2.9
Materials	2.0
Telecom	1.1
Utilities	0.4
Total	<u>100.0 %</u>

The System's Large Cap Value pool total rate of return was (23.7)% for fiscal year 2008. This compared with (24.5)% for the S&P 500 Citigroup Value Index.

At the close of fiscal year 2008, the Large Cap Value pool represented 4.2% of total investments. This compares to 4.9% for fiscal year 2007. The following summarizes the System's 2.0% ownership share of the Large Cap Value pool at September 30, 2008:

Large Cap Value Pool (in thousands)

Short Term Pooled Investments	\$ 5,474
Equities	42,135
Settlement Principal Payable	(1,542)
Settlement Proceeds Receivable	1,539
Accrued Dividends	76
Total	<u>\$ 47,682</u>

INVESTMENT SECTION

Report on Investment Activity (continued)

Large Cap Growth Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P Citigroup Growth Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than \$3 billion and which offer above-average and sustainable growth in revenues, earnings, and cash flow, identifiable catalysts, and reasonable valuations relative to their fundamentals. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depositary Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S&P Citigroup Growth Index.

The following summarizes the weightings of various sectors in the pool as of September 30, 2008:

Technology	26.1 %
Energy	17.5
Healthcare	15.8
Industrials	11.2
Consumer Staples	10.4
Consumer Discretionary	6.8
Financials	5.3
Short Term Investments	3.2
Other (ETFs)	2.5
Materials	1.2
Total	<u>100.0 %</u>

The Large Cap Growth pool's total rate of return was (21.2)% for fiscal year 2008 versus (19.4)% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2008, the Large Cap Growth pool represented 5.2% of total investments. This compares to 5.4% for fiscal year 2007. The following summarizes the System's 2.1% ownership share of the Large Cap Growth pool at September 30, 2008:

Large Cap Growth Pool (in thousands)

Short Term Pooled Investments	\$	1,352
Equities		57,720
Settlement Principal Payable		(1,512)
Settlement Proceeds Receivable		1,560
Accrued Dividends		39
Total	\$	<u>59,159</u>

INVESTMENT SECTION

Report on Investment Activity (continued)

Large Cap Sectors Pool

The primary investment objective is to generate a rate of return from investments in exchange traded funds (ETFs) and equivalents that exceeds the S&P 500 Index.

The pool was created in January 2008 and invests primarily in ETFs of sectors and broad market indices that offer above-average return potential based on pricing anomalies and timeliness within the investment life cycle.

The Large Cap Sectors pool return from inception to fiscal year end was (14.9)%.

At the close of fiscal year 2008, the Large Cap Sectors pool represented 0.3% of total investments. The following summarizes the System's 3.3% ownership share of the Large Cap Sectors pool at September 30, 2008:

Large Cap Sectors Pool (in thousands)

Short Term Pooled investments	\$	1,319
Equities		2,026
Accrued Dividends		49
Total	\$	3,394

Large Cap Enhanced Pool

The primary investment objective is to generate a rate of return that exceeds the S&P 500 Index by producing a variety of absolute return strategies across multiple asset classes.

In February 2008, FrontPoint Partners LLC was hired to specialize in producing a diverse group of alternative investment strategies that aims to deliver risk-adjusted absolute returns uncorrelated to broad market indices.

The Large Cap Enhanced pool return from inception to fiscal year end was (20.8)%.

At the close of fiscal year 2008, the Large Cap Enhanced pool represented 0.4% of total investments. The following summarizes the System's 1.7% ownership share of the Large Cap Enhanced pool at September 30, 2008:

Large Cap Enhanced Pool (in thousands)

Total Investment	\$	3,961
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Manager of Managers Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 1500 Index by selecting stocks of all market capitalizations and investment styles.

In October 2007, three new managers were hired that specialize in creating manager-of-manager portfolios, allowing the System an opportunity to invest in minority- and women-owned and emerging investment managers in a risk-controlled environment.

The Manager of Managers pool return from inception to fiscal year end was (21.5)%.

INVESTMENT SECTION

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Manager of Managers pool represented 0.3% of total investments. The following summarizes the System's ownership share and composition of the Manager of Managers pool at September 30, 2008:

Manager of Managers Pool (in thousands)

	Attucks Asset Management	Bivium Capital Partners	Leading Edge Investment Advisors
Total Investment	\$ 1,574	\$ 1,179	\$ 833
Ownership Percentage	2.1%	2.1%	2.1%

Mid Cap Pool

Nine Mid Cap managers were selected in 2005 and they were funded out of the Large Cap Value and Growth pools. The managers' investment styles range from value, growth and core, and they select stocks with average market capitalizations greater than \$1 billion but less than \$5 billion. The investment objective of the Mid Cap manager pool is to generate a combined rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The Mid Cap pool return for fiscal year 2008 was (20.5)% versus the benchmark's (16.7)%.

At the close of fiscal year 2008, the Mid Cap pool represented 2.1% of total investments. This compares to 2.3% for fiscal year 2007. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2008:

Mid Cap Value and Core Pools (in thousands)

	Artisan Mid Cap Value	Cramer Rosenthal McGlynn Mid Cap Value	Los Angeles Capital Mid Cap Core	Wellington Management Mid Cap Core
Total Investment	\$ 4,398	\$ 4,059	\$ 2,572	\$ 3,282
Ownership Percentage	2.2%	2.2%	2.2%	2.2%

INVESTMENT SECTION

Report on Investment Activity (continued)

Mid Cap Growth Pools (in thousands)

	Alliance Mid Cap Growth	Putnam Mid Cap Growth	Rainer Mid Cap Growth	UBS Mid Cap Growth	Wellington Management Mid Cap Growth
Total Investment	\$ 2,365	\$ 942	\$ 2,368	\$ 2,122	\$ 2,202
Ownership Percentage	2.2%	2.2%	2.2%	2.2%	2.2%

Small Cap Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 600 Small Cap Index by selecting stocks with market capitalizations greater than \$60 million but less than \$3 billion.

In December of 2006, five new Small Cap managers were hired in the Small Cap pool, and in January of 2007, three managers were terminated for performance reasons. The current System's Small Cap pool is invested with one Growth, one Core, and five Value managers.

The Small Cap pool return for fiscal year 2008 was (12.0)% versus the benchmark's (13.8)%.

At the close of fiscal year 2008, the Small Cap pool represented 1.1% of total investments. This compares to 1.0% for fiscal year 2007. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2008:

Small Cap Value Pool (in thousands)

	Donald Smith Small Cap Value	Fisher Small Cap Value	GW Capital Small Cap Value	Northpointe Small Cap Value	Opus Capital Small Cap Value
Total Investment	\$ 1,948	\$ 2,508	\$ 1,564	\$ 1,637	\$ 487
Ownership Percentage	2.3%	2.2%	2.3%	2.4%	2.3%

Small Cap Growth and Core Pool (in thousands)

	Champlain Small Cap Core	Pier Capital Small Cap Growth
Total Investment	\$ 1,862	\$ 2,243
Ownership Percentage	2.3%	2.3%

INVESTMENT SECTION

Report on Investment Activity (continued)

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2008:

Information Technology	16.0 %
Financials	15.8
Energy	13.4
Healthcare	13.1
Consumer Staples	12.2
Industrials	11.1
Consumer Discretionary	8.5
Utilities	3.5
Materials	3.4
Telecomm. Services	3.0
Total	<u>100.0 %</u>

The S&P 500 Index pool return for the fiscal year was (21.9%) versus the benchmark's (22.0%).

At the close of fiscal year 2008, the S&P 500 Index pool represented 13.7% of total investments. This compares to 16.1% for fiscal year 2007. The following summarizes the System's 2.2% ownership share of the S&P 500 Index pool at September 30, 2008:

S&P 500 Index Pool (in thousands)

Short Term Pooled Investments	\$ 6,137
Equities	149,931
Futures Contracts	227
Settlement Principal Payable	(8,674)
Settlement Proceeds Receivable	8,432
Accrued Dividends	245
Total	<u>\$ 156,298</u>

S&P MidCap Index Pool

The objective of the S&P MidCap Index pool is to closely match the return performance of its benchmark, the S&P MidCap, and use low risk strategies to offset transaction costs and add to performance when possible. The pool invests in equities of mid-size firms.

The S&P MidCap Index pool return for the fiscal year was (15.9)% versus its benchmark's (16.7)%.

INVESTMENT SECTION

Report on Investment Activity (continued)

At the close of fiscal year 2008, the S&P Mid Cap Index pool represented 1.5% of total investments. This compares to 1.7% for fiscal year 2007. The following summarizes the System's 2.1% ownership share of the S&P Mid Cap Index pool at September 30, 2008:

S&P Mid Cap Index Pool (in thousands)

Short Term Pooled Investments	\$	191
Equities		17,030
Settlement Principal Payable		(2)
Settlement Proceeds Receivable		124
Accrued Dividends		20
Total	\$	17,363

International Equity Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return for the fiscal year was (32.9)% compared to the Citigroup BMI-EPAC return of (30.1)%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depositary Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at \$56.8 million on September 30, 2008. That valuation included a net unrealized loss of \$24.5 million. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2008, the pool received realized gains of \$13.1 million on swap equity exposures and dedicated short-term investments. During the same period, \$2.8 million of interest income was earned from international equity swaps.

INVESTMENT SECTION

Report on Investment Activity (continued)

At the close of fiscal year 2008, the International Equity – Passive pool represented 6.6% of total investments. This compares to 8.5% for fiscal year 2007. The following summarizes the System's 2.1% ownership share of the International Equity Pool - Passive at September 30, 2008:

International Equity Pool - Passive (in thousands)

Short Term Pooled Investments	\$ 1,520
Equities	16,437
Fixed Income Securities	76,756
Market Value of Equity Contracts	(20,064)
Accrued Dividends and Interest	322
Total	\$ 74,971

International Equity Pool - Active

The investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P Citigroup Broad Market Index (BMI) World Ex-United States. That benchmark is impacted by foreign currency exchange rate changes.

In fiscal year 2005, the System invested in AllianceBernstein International Style Blend, a mix of Large Cap Growth and Value. During fiscal year 2006, investments were made in the following funds: The Wellington Trust Company International Research Equity Fund and the State Street Global Asset International Alpha Select Pool. Two international managers, SSgA Int'l Small Cap Alpha and GlobeFlex Int'l Small Cap, were selected and funded during April 2007, and added to the three managers already in the pool.

The International Equity Pool – Active return for the fiscal year was (31.9)% versus the benchmark's (30.5)%.

At the close of fiscal year 2008, the International Equity - Active pool represented 2.3% of total investments. This compares to 2.8% for fiscal year 2007. The following summarizes the System's ownership share and composition of the pool at September 30, 2008:

International Equity Pool - Active (in thousands)

	AllianceBernstein International	Wellington International	SSgA International	GlobeFlex Int'l Small Cap	SSgA Int'l Small Cap
Total Investment	\$ 8,137	\$ 6,806	\$ 8,253	\$ 1,214	\$ 1,482
Ownership Percentage	2.2%	2.0%	2.0%	2.2%	2.2%

INVESTMENT SECTION

Report on Investment Activity (continued)

Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the benchmark for all private equity investments over long time periods. The benchmark is a blend of the S&P 500 Index plus 300 basis points and the 10 Year Yield plus 300 basis points using ending weights of equity and fixed income holdings within the portfolio.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2008:

Buyout Funds	54.0 %
Special Situation Funds	18.1
Venture Capital Funds	9.8
Fund of Funds	6.4
Liquidation Portfolio	6.0
Mezzanine Funds	2.4
Hedge Funds	2.0
Short Term Investments	1.2
Active Small Cap	0.1
Total	<u><u>100.0 %</u></u>

The Alternative Investments pool had a return of 5.0% for the fiscal year ended September 30, 2008, versus the benchmark of (17.4)%.

T. Rowe Price managed the stock distributions of the Alternative Investments beginning in October 2006. The T. Rowe Price return for the fiscal year ending September 30, 2008, was (53.7)%.

At the close of fiscal year 2008, the Alternative Investments pool represented 18.5% of total investments and T. Rowe Price represented 0.02% of total investments. This compares to 14.0% for Alternative and 0.03% for T. Rowe Price for fiscal year 2007. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2008:

Alternative Investments Pool (in thousands)

	<u>Alternative</u>	<u>T. Rowe Price</u>
Short Term Pooled Investments	\$ 2,582	\$ 37
Equities	207,935	164
Settlement Proceeds Receivable		2
Total	<u><u>\$ 210,517</u></u>	<u><u>\$ 203</u></u>
 Ownership Percentage	 2.1%	 2.5%

INVESTMENT SECTION

Report on Investment Activity (continued)

Real Estate Pool

The Real Estate pool seeks favorable returns primarily through rental income and appreciation of real estate investments. Real estate investments are typically held through various legal investment entities, such as limited partnerships or limited liability companies, established for the specific purpose of owning, leasing, managing, financing, or developing real estate and real estate related investments. Independent third parties regularly value the real estate investments to establish current market values.

The Real Estate pool diversifies its holdings by:

- Geography - The pool is diversified geographically with emphasis placed upon domestic (U.S.) real estate investments. The pool may also make foreign real estate investments, which are not expected to exceed 20% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	23.5 %
Hotels	21.7
Commercial office buildings	19.8
Retail shopping centers	16.1
Industrial warehouse buildings	8.7
For Sale Housing	4.3
Senior Living	2.7
Land	1.7
Short Term Investments	1.5
Total	<u>100.0 %</u>

The Real Estate pool generated a return of 6.1% for fiscal year 2008. The benchmark return of 4.0% is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. The Real Estate pool continued to benefit from gains on asset sales during the first half of the fiscal year, but turmoil in the residential housing market and the resulting credit crunch spread into the commercial real estate market during the second half of the fiscal year and has begun to negatively impact commercial real estate values that are coming off from historical highs the past few years.

At the close of fiscal year 2008, the Real Estate pool represented 11.8% of total investments. This compares to 9.7% for fiscal year 2007. The following summarizes the System's 2.3% ownership share of the Real Estate pool at September 30, 2008:

Real Estate Pool (in thousands)

Short Term Pooled Investments	\$ 2,050
Equities	132,445
Total	<u>\$ 134,495</u>

INVESTMENT SECTION

Report on Investment Activity (continued)

Government Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Lehman Brothers Government Index.

The Government Bond Pool invests in a diversified portfolio of United States' government bonds including, but not limited to: treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk/reward relationship relative to historical norms and the outlook for interest rates.

During the fiscal year, rates continued to be volatile. Ten-year treasuries started the year at 4.5%, rose to 4.7%, then declined to 3.3% and ended at 3.9%. During the year, the curve declined through its entirety, though rates from three months to ten years showed a steeper decline.

For the fiscal year ending September 30, 2008, the Government Bond pool returned 5.7% which underperformed the 7.9% return of the Lehman Brothers Government Index.

The following summarizes the security type breakdown of the pool as of September 30, 2008:

GNMA	38.4 %
U.S. Agency	37.4
U.S. Guaranteed	19.5
Short Term Investments/Accruals	4.7
Total	<u><u>100.0 %</u></u>

At the close of fiscal year 2008, the Government Bond pool represented 6.9% of total investments. This compares to 8.0% for fiscal year 2007. The following summarizes the System's 2.1% ownership share of the Government Bond pool at September 30, 2008:

Government Bond Pool (in thousands)

Short Term Pooled Investments	\$ 1,074
Fixed Income Securities	74,293
Settlement Proceeds Receivable	1,962
Accrued Dividends	634
Total	<u><u>\$ 77,963</u></u>

Treasury Inflation Protected Securities Pool

A Treasury Inflation Protected Securities (TIPS) Pool was established in January 2007. Transfer of TIPS holdings in the Government Bond Pool provided the initial funding for the TIPS pool.

The TIPS pool had a return of 17.6% for the fiscal year ended September 30, 2008, versus the benchmark of 6.2%. During the year, bonds were sold when prices yielded a negative real rate of return.

INVESTMENT SECTION

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Treasury Inflation Protected Securities pool represented 0.01% of total investments. This compares to 0.4% for fiscal year 2007. The following summarizes the System's 2.1% ownership share of the TIPS pool at September 30, 2008:

TIPS Pool (in thousands)

Short Term Pooled Investments	\$	63
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Corporate Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Lehman Brothers Credit Index.

The Corporate Bond Pool invests in a diversified portfolio of investment grade corporate issues. Such issues are rated in the top four categories by nationally recognized rating agencies. Non-rated issues may be acceptable if they are determined to be of comparable quality. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk/reward ratio relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2008, the Corporate Bond pool returned 3.0% compared to the (4.8)% return of the Lehman Brothers Credit Index. The pool's performance improved as the year progressed due to the decline in rates later in the year.

The following summarizes the security type breakdown of the pool as of September 30, 2008:

Healthcare	18.2 %
Financials	16.5
Consumer Staples	13.8
Industrials	12.4
Utilities	12.2
Consumer Discretionary	9.5
Materials	6.4
Short Term Investments/Accruals	3.6
Energy	3.4
Information Technology	3.0
Other	1.0
Total	<u>100.0 %</u>

INVESTMENT SECTION

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Corporate Bond pool represented 6.5% of total investments. This compares to 5.3% for fiscal year 2007. The following summarizes the System's 2.0% ownership share of the Corporate Bond pool at September 30, 2008:

Corporate Bond Pool (in thousands)

Short Term Pooled Investments	\$ 489
Fixed Income Securities	71,588
Settlement Proceeds Receivable	1,167
Accrued Dividends	995
Total	\$ 74,239

Fixed Income Core Pools

Five Fixed Income Core managers were selected in fiscal year 2006, beginning March 31, 2006. Their objective is to generate a rate of return exceeding the Lehman Aggregate Index net of fees.

Delaware Investments, Dodge & Cox, Dupont Capital Management, Pyramis Global Advisors, and Metropolitan West Asset Management were the firms hired.

The Fixed Income Core pools combined rate of return for the fiscal year was 1.7% versus the benchmark's 3.7%.

At the close of fiscal year 2008, the Fixed Income Core pools represented 1.7% of total investments. This compares to 1.4% for fiscal year 2007. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2008:

Fixed Income Core Pools (in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	\$ 2,354	\$ 4,097	\$ 3,052	\$ 5,837	\$ 4,190
Ownership Percentage	2.2%	2.2%	2.2%	2.2%	2.2%

Fixed Income Corporate Manager Pools

Four Fixed Income Corporate managers were selected and commenced management on September 15, 2006, with an objective of exceeding the return of the Lehman Credit Index net of fees.

The four managers hired were AllianceBernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Fixed Income Corporate Manager pools combined rate of return for the fiscal year was (7.4)% versus the benchmark's (4.8)%.

INVESTMENT SECTION

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Fixed Income Corporate Manager pools represented 1.3% of total investments. This compares to 1.2% for fiscal year 2007. The following summarizes the System's ownership share and composition of the four Fixed Income Corporate Manager pools at September 30, 2008:

Fixed Income Corporate Manager Pools (in thousands)				
	Alliance Bernstien Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	\$ 3,196	\$ 4,983	\$ 3,040	\$ 2,978
Ownership Percentage	2.2%	2.2%	2.2%	2.2%

CMBS Investment Pool

In May 2008, the System received approval for an investment in a core Commercial Mortgage Backed Securities (CMBS) Investment Pool. This pool was developed in conjunction with Principal Real Estate Investors (PREI), an SEC registered Real Estate Advisory firm located in Des Moines, Iowa. The overall investment will be operated on a separate account basis with PREI providing investment selection, ongoing servicing and reporting. The mandate will allow PREI to purchase and trade up and down the "A" tranche capital structure to achieve the best risk adjusted return trade off. The pool places certain percentage limitations on how much may be invested in each of the "A" tranches from AAA to AA-.

The CMBS Investment pool return from inception to fiscal year end was (16.3)%.

At the close of fiscal year 2008, the CMBS Investment pool represented 0.2% of total investments. The following summarizes the System's 2.2% ownership share of the CMBS Investment pool at September 30, 2008:

CMBS Investment Pool (in thousands)	
Total Investment	\$ 2,756

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was (3.2)% versus the benchmark's 2.2%.

Potential areas of investment are:

- Obligations of the United States or its agencies.
- Bankers' acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the U.S. government or its agencies.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two national rating services as determined by the State Treasurer.

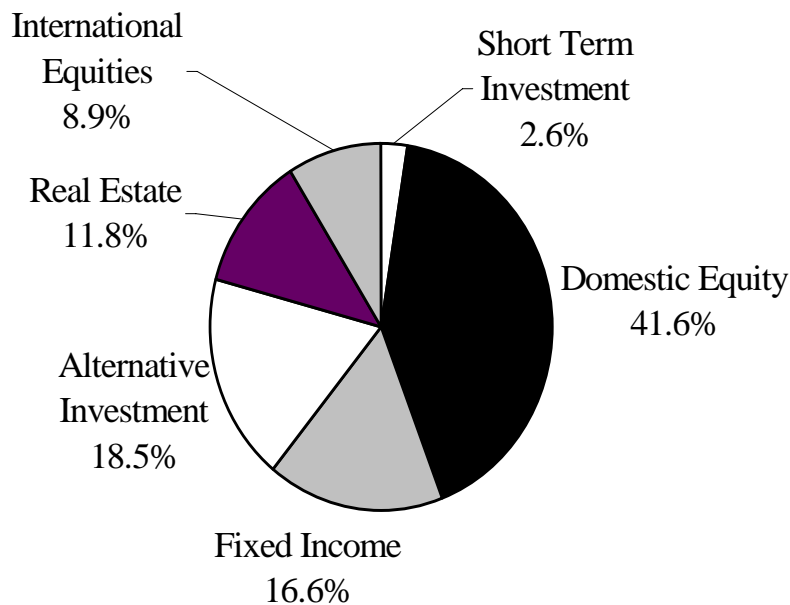
INVESTMENT SECTION

Report on Investment Activity (continued)

As of September 30, 2008, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2008, the Short Term Investment pool represented 2.6% of total investments. This compares to 1.9% for fiscal year 2007. The System's ownership share of the Short Term Investment pool at September 30, 2008 was \$29,356,719 composed of fixed income securities and equity in common cash.

Asset Allocation – Security Type Only



INVESTMENT SECTION

Investment Results for the Period Ending September 30, 2008

Investment Category	Current Year	Annualized Rate of Return ¹		
		3 Years	5 Years	10 Years
Total Portfolio	(12.2) %	5.2 %	8.1 %	5.9 %
Total Domestic Equity	(21.7)	0.4	5.1	3.8
S&P 1500 Index	(21.3)	0.4	5.6	3.8
Large Cap Core Equity Pool	(22.3)			
Large Cap Value Pool	(23.7)	0.2	6.2	
Large Cap Growth Pool	(21.2)	0.4	3.2	
Mid Cap Pool	(20.5)	1.5		
Small Cap Pool	(12.0)	3.9	8.1	
S&P 500 Index Pool	(21.9)	0.3	5.2	
S&P MidCap Index Pool	(15.9)	2.2	9.0	
International Equity Pool - Passive	(32.9)	(1.6)	7.7	4.6
S&P Citigroup BMI - EPAC 50/50	(30.1)	(0.2)	9.0	5.2
International Equity Pool - Active	(31.9)	1.0		
Alternative Investments Pool	5.0	20.1	21.0	11.2
Alternative Blended Benchmark ²	(17.4)	3.9	8.7	6.6
T. Rowe Price (Stock Distributions)	(53.7)			
Real Estate Pool	6.1	15.0	13.5	11.5
NCREIF Property Blended Index ³	4.0	11.9	13.1	10.9
Total Fixed Income	3.1	4.2	3.8	5.0
Lehman Brothers Government/Credit	2.4	3.6	3.3	5.0
Government Bond Pool	5.7	5.3	4.5	
Corporate Bond Pool	3.0	4.0	3.6	
Fixed Income Core Pool	1.7			
Fixed Income Managers Pool	(7.4)			
Treasury Inflation Protected Securities	17.6			
Short Term Investment Pool	(3.2)	2.2	2.0	3.1
30 Day Treasury Bill	2.2	3.8	3.0	3.2

¹ Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards.

Excludes income and investment gains and losses from security lending

² As of January 1, 2007, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights.

History prior to January 1, 2007 is S&P 500 plus 300 bps.

³ As of October 1, 2005, index is NCREIF less 130 bps. History prior to October 1, 2005 reflects NCREIF less 75 bps.

INVESTMENT SECTION

Largest Assets Held

Largest Stock Holdings (By Market Value)* September 30, 2008

Rank	Shares	Stocks	Market Value
1	194,043	SPDR Trust	\$ 22,507,047
2	536,301	Microsoft Corporation	14,313,870
3	170,275	Exxon Mobil Corporation	13,223,591
4	162,301	Johnson and Johnson	11,244,239
5	346,051	General Electric Corporation	8,824,302
6	422,876	Pfizer Inc	7,797,838
7	324,641	Cisco Systems Inc	7,323,894
8	87,798	Chevron Corporation	7,241,593
9	14,797	Google Inc	5,926,424
10	270,424	Oracle Corporation	5,492,313

Largest Bond Holdings (By Market Value)* September 30, 2008

Rank	Par Amount	Description	Market Value
1	\$ 5,294,263	General Electric Cap Corp 2.97438% FRN Due 2-15-2017	\$ 4,815,937
2	4,298,258	Berkshire Hathaway Fin 5.11875% FRN Due 1-11-2011	4,292,572
3	3,223,694	John Deere Capital Corp 3.26063% FRN Due 2-26-2010	3,222,965
4	3,223,694	American Honda Finance 3.01% FRN Due 11-20-2009	3,210,345
5	3,223,694	JP Morgan Chase & Co 3.70375% FRN Due 9-21-2012	3,198,085
6	3,223,694	Vulcan Materials 4.06875% FRN Due 12-15-2010	3,193,646
7	3,223,694	Citigroup Funding Inc 4.30875% FRN Due 10-22-2009	3,085,140
8	2,471,499	American Honda Finance 3.265% FRN Due 6-07-2010	2,466,827
9	4,796,446	Wachovia Corp 3.96375% FRN Due 4-23-2012	2,206,365
10	2,149,129	John Deere Capital Corp 5.2025% FRN Due 1-18-2011	2,148,605

Largest bond holdings are exclusive of Securities Lending Collateral.

* A complete list of holdings is available from the Michigan Department of Treasury.

The System's investments are commingled in various pooled accounts. Amounts, par value, and number of shares represent the System's pro-rata share based on its ownership of the investment pools.

INVESTMENT SECTION

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 38.09% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year amounted to \$266 thousand or three and eight-tenths basis points (.038%) of the market value of the Assets under Management by the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding, which in the Committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points *
State Treasurer	\$ 704,394	\$ 266	3.8
Outside Advisors -			
Fixed Income	36,480	65	17.7
Mid Cap Equity	24,310	173	71.2
Small Cap Equity	12,250	100	81.4
International Equity	41,661	207	49.7
Equity	7,547	18	24.2
Alternative	207,935	2,002	96.3
Real Estate	103,144	266	25.8
Total	\$ 1,137,721	\$ 3,097	

Other Investment Services Fees:

Assets in Custody	\$ 1,108,365	\$ 58
Securities on Loan	173,777	279

* Outside Advisors Fees are netted against income for Fixed Income, Equity, Small Cap Equity, Mid Cap Equity, and International Equity. For Alternative Investment partnership agreements that define the management fees, the asset management fees range from 75 basis points on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 175 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

INVESTMENT SECTION

Schedule of Investment Commissions

Fiscal Year Ended September 30, 2008							
	Actual Commissions Paid ¹	Actual Number of Shares Traded ¹	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc of America Securities LLC	\$ 8,790	293,001	\$ 0.03	\$ 0.01	\$ 0.02	\$ 2,930	\$ 5,860
Bear, Stearns & Co Inc	20,354	1,096,437	0.02	0.01	0.01	10,964	10,964
Broadcort Capital	1,866	62,183	0.03	0.01	0.02	622	1,244
Cantor Fitzgerald & Co.	6,766	338,917	0.02	0.01	0.01	3,389	3,389
Citigroup Global Markets Inc.	33,450	1,651,110	0.02	0.01	0.01	16,511	16,511
Cowen & Co., LLC	9,448	314,918	0.03	0.01	0.02	3,149	6,298
Credit Suisse Securities LLC	18,977	784,902	0.02	0.01	0.01	7,849	7,849
Deutsche Bank - Alex Brown	43	1,065	0.04	0.01	0.03	11	32
Deutsche Bank Securities Inc.	5,152	178,670	0.03	0.01	0.02	1,787	3,573
Goldman, Sachs & Co	16,976	750,369	0.02	0.01	0.01	7,504	7,504
The Griswold Company, Incorporated	11,846	606,917	0.02	0.01	0.01	6,069	6,069
ISI Capital LLC	10,025	334,164	0.03	0.01	0.02	3,342	6,683
J P Morgan Securities Inc.	13,721	459,720	0.03	0.01	0.02	4,597	9,194
Ladenburg Thalmann	1,524	50,792	0.03	0.01	0.02	508	1,016
Leerink Swann & Company	11	286	0.04	0.01	0.03	3	9
Lehman Brothers Inc.	11,357	385,582	0.03	0.01	0.02	3,856	7,712
Liquidnet Inc.	3	162	0.02	0.01	0.01	2	2
Merrill Lynch, Pierce, Fenner & Smith, Inc.	22,176	760,296	0.03	0.01	0.02	7,603	15,206
Mischler Financial Group, Inc.	1,568	52,282	0.03	0.01	0.02	523	1,046
Morgan Stanley & Co, Incorporated	5,920	230,149	0.03	0.01	0.02	2,301	4,603
OTA LLC	2,276	75,871	0.03	0.01	0.02	759	1,518
Pink, Ziegel & Company	1,574	52,461	0.03	0.01	0.02	525	1,049
Sanford C. Bernstein & Co., LLC	20,892	712,089	0.03	0.01	0.02	7,121	14,242
Stanford Group Co	1,191	46,659	0.03	0.01	0.02	466	933
Thomas Weisel Partners LLC	1,778	45,139	0.04	0.01	0.03	451	1,354
UBS Securities LLC	11,608	387,113	0.03	0.01	0.02	3,871	7,742
Wayne Company	2,163	72,090	0.03	0.01	0.02	721	1,442
Weeden & Co. L.P.	9,054	916,409	0.01	0.01	-	9,164	-
	<u>\$ 250,509</u>	<u>10,659,753</u>	<u>\$ 0.03</u> ²	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 106,598</u>	<u>\$ 143,044</u>

¹ Commissions are included in purchase and sale prices of investments. The commissions and shares represent the System's pro-rata share based on ownership of commission and share transactions in the investment pools.

² The average commission rate per share for all brokerage firms.

INVESTMENT SECTION

Investment Summary

Fiscal Year Ended September 30, 2008

	<u>Market Value ¹</u>	<u>Percent of Total Market Value</u>	<u>Investment & Interest Income ²</u>	<u>Percent of Total Investment & Interest Income</u>
Fixed Income Pools	\$ 188,744,813	16.6 %	\$ 7,275,817	(4.7) %
Domestic Equity Pools	473,541,152	41.6 %	(133,644,371)	85.4 %
Real Estate Pool	134,494,963	11.8 %	8,234,171	(5.3) %
Alternative Investment Pools	210,720,063	18.5 %	11,462,227	(7.3) %
International Equities Pools	100,863,755	8.9 %	(49,381,826)	31.6 %
Short Term Investment Pools	<u>29,356,719</u>	<u>2.6 %</u>	<u>(449,690)</u>	<u>0.3 %</u>
Total	<u><u>\$ 1,137,721,465</u></u>	<u><u>100.0 %</u></u>	<u><u>\$ (156,503,672)</u></u>	<u><u>100.0 %</u></u>

¹ Market value excludes \$146,208,301 in securities lending collateral for fiscal year 2008.

² Total Investment & Interest Income excludes net security lending income of \$1,296,715 and unrealized loss of \$44,577,593 for securities lending collateral.

INVESTMENT SECTION

Investment Summary (continued)

Fiscal Year Ended September 30, 2007

	<u>Market Value</u> ¹	<u>Percent of Total Market Value</u>	<u>Investment & Interest Income</u> ²	<u>Percent of Total Investment & Interest Income</u>
Fixed Income Pools	\$ 218,636,688	16.3 %	\$ 11,224,437	5.5 %
Domestic Equity Pools	627,788,771	46.8 %	92,507,419	45.6 %
Real Estate Pool	130,416,859	9.7 %	21,131,262	10.4 %
Alternative Investment Pools	188,050,550	14.0 %	46,219,137	22.8 %
International Equities Pools	152,211,843	11.3 %	30,453,966	15.0 %
Short Term Investment Pools	<u>25,661,725</u>	<u>1.9 %</u>	<u>1,450,686</u>	<u>0.7 %</u>
Total	<u><u>\$ 1,342,766,436</u></u>	<u><u>100.0 %</u></u>	<u><u>\$ 202,986,907</u></u>	<u><u>100.0 %</u></u>

¹ Market value excludes \$282,596,545 in securities lending collateral for fiscal year 2007.

² Total Investment & Interest Income excludes net security lending income of \$521,962.

ACTUARIAL SECTION

Actuary's Certification
Summary of Actuarial Assumptions and Methods
Schedule of Active Member Valuation Data
Retirant and Beneficiary Data
Prioritized Solvency Test
Analysis of System Experience
Summary of Plan Provisions

ACTUARIAL SECTION

Actuary's Certification

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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248.799.9020 fax
www.gabrielroeder.com

September 24, 2008

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
and
The Retirement Board
Michigan State Police Retirement System
P.O. Box 30171
Lansing, Michigan 48909

Ladies and Gentlemen:

The basic financial objective of the Michigan State Police Retirement System (SPRS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the system to present and future benefit recipients.

The financial objective is addressed within the actuarial valuation. The valuation process develops employer contributions that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of September 30, 2007.

The Retirement System provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year to year consistency. The actuary summarizes and tabulates population data in order to analyze long term trends. The plan's external auditor also audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the disclosure requirements of GASB Statement Nos. 25 and 43. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

Actuary's Certification (continued)

Ms. Lisa Webb Sharpe
September 24, 2008
Page 2

Our firm provided the following supporting schedules for use in the Comprehensive Annual Financial Report:

Financial Section

- Note 1 Table of System's Membership
- Note 3 - Summary of Actuarial Assumptions
- Schedules of Funding Progress
- Schedules of Employer Contributions (Annual Required Contribution)

Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Percent of Eligible Active Members Retiring Within Next Year
- Separation from Active Employment Before Age and Service Retirement and Individual Pay Increase Assumptions
- Schedule of Active Member Valuation Data
- Schedule of Retirant and Beneficiary Data
- Prioritized Solvency Test
- Analysis of System Experience

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit (Retirement Type and Option)
- Schedule of Retired Members by Type of Health Benefit
- Schedules of Average Benefit Payments – Pension, Health, Dental, and Vision

Although our firm provided supporting schedules in connection with GASB statements numbers 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement 43 applies.

The actuarial valuations of SPRS as of September 30, 2007 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,



James Koss, ASA, MAAA



Alan Sonnanstine, ASA, MAAA

Gabriel Roeder Smith & Company

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuations was 8% per year net of expenses, compounded annually. This rate of return is not the assumed real rate of return. Considering other financial assumptions, this 8% investment return rate translates to an assumed real rate of return of 4.5%. Adopted 2004.
2. The healthy life mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 2004.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 2004.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 2004.
5. Total active member payroll is assumed to increase 3.5% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1998.
6. An individual entry age actuarial cost method of valuation was used in determining age and service and deferred retirement actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a declining 40-year period for years beginning October 1, 1986. Adopted or re-adopted 1996.
7. The Department of Management and Budget approved the use of market value of assets as of September 30, 2006, for actuarial valuation purposes. For investment gains or losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over 5 years. Adopted 2007.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board and the Department of Management and Budget after consulting with the actuary.
10. A 5-year experience investigation, covering the period from September 30, 1997, through September 30, 2002, was completed in April 2004. The purpose of the study was to analyze the actual experience of the System versus that anticipated by the actuarial assumptions then in use. The combined effect of the recommended changes in assumptions was an increase in actuarial accrued liabilities of approximately 0.1% and an 8.3% decrease in computed employer contributions. Adopted 2004.
11. Gabriel Roeder Smith & Co. was awarded the actuarial and consulting services contract beginning October 4, 2006.
12. Eighty-five percent of male and seventy percent of female future retirees are assumed to elect coverage for one or more dependents. Adopted 2007.
13. Eighty-five percent of male retirees and seventy percent of female retirees are assumed to have coverage continuing after the retiree's death. Adopted 2007.
14. Six percent of pension recipients are assumed to opt-out of the retiree health care plan. Adopted 2007.

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods (continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year ¹

<u>Retirement Ages</u>	
First year eligible to retire	
49 and under	50 %
After first year eligible to retire	
46 and under	35
47	25
48-49	25
All Members	
50-51	20
52-60	25
61	50
62	70
63 and over	100

¹ Of those assumed to retire with 25 or more years of service, based on the percents above, 90% are assumed to elect the DROP and 10% are assumed to retire without DROP.

SCHEDULE 2

Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>		<u>Percent Increase In Pay During Next Year</u>
All	0	6.50 %			93.50 %
	1	5.00			21.50
			<u>Duty</u>	<u>Non-duty</u>	
20	2 & Over	2.00	0.25 %	0.00 %	9.92
25	"	2.00	0.25	0.00	9.40
30	"	1.50	0.25	0.01	6.60
35	"	0.60	0.25	0.02	5.26
40	"	0.35	0.25	0.05	4.54
45	"	0.35	0.25	0.11	4.28
50	"	0.35	0.25	0.19	4.22
55	"		0.25	0.27	4.02
60 & Over	"		0.25	.038	4.02

ACTUARIAL SECTION

Actuarial Valuation Data

Schedule of Active Member Valuation Data

<u>Valuation Date Sept. 30</u>	<u>Number</u>	<u>Reported Annual Payroll</u>	<u>Average Annual Pay</u>	<u>% Increase</u>	<u>Average Age</u>	<u>Average Service</u>
1998	2,220	\$ 108,183,040	\$ 48,731	(7.5) %	37.5	11.6
1999	2,216	116,910,216	52,757	8.3	37.0	11.5
2000	2,210	116,558,417	52,741	(0.0)	37.2	11.6
2001	2,137	118,788,227	55,586	5.4	37.9	12.2
2002	2,048	124,366,038	60,726	9.3	38.5	12.8
2003	1,848	113,201,430	61,256	0.9	38.3	12.5
2004	1,831	119,721,613	65,386	6.7	38.1	11.8
2005	1,708	117,648,748	68,881	5.3	38.3	12.0
2006	1,678	115,894,652	69,067	0.3	39.2	12.9
2007	1,620	118,209,401	72,969	5.6	40	13.6

Excludes DROP program participants who are still actively employed.

Retirant and Beneficiary Data

Rolls End of Year

<u>Year Ended Sept. 30</u>	<u>Number of</u>			<u>Average Monthly Benefits</u>			<u>Average Ages</u>		
	<u>Pensioners *</u>	<u>Widows</u>	<u>Children</u>	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>
1998	1,820	314	5	\$ 2,062	\$ 1,225	\$ 499	62.8	71.0	10.1
1999	1,893	334	4	2,141	1,263	499	63.1	71.5	10.8
2000	1,968	345	6	2,227	1,308	366	61.9	71.9	10.4
2001	2,023	353	6	2,298	1,357	366	62.5	73.3	11.4
2002	2,095	361	6	2,378	1,415	366	62.6	72.7	16.3
2003	2,280	364	5	2,506	1,464	419	62.2	73.1	16.3
2004	2,167	313	8	2,609	1,502	475	62.8	73.5	17.5
2005	2,182	379	8	2,747	1,562	511	63.1	74.2	11.5
2006	2,152	400	10	2,808	1,661	540	63.7	74.1	11.9
2007	2,159	414	8	2,890	1,776	466	64.3	74.7	11.4

* Does not include alternate payees

Prioritized Solvency Test

The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a System's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) are normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

(\$ in thousands)

Valuation Date Sept. 30	Actuarial Accrued Liability (AAL)			Valuation Assets	Portion of AAL Covered by Assets			
	(1)	(2)	(3)		(1)	(2)	(3)	(4) ²
	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)					
1998	\$ 614	\$ 593,169	\$ 349,941	\$ 974,365	100 %	100 %	108.8 %	103.2 %
1998 ²	614	604,724	357,130	974,365	100	100	103.3	101.2
1999	464	643,284	362,780	1,036,840	100	100	108.4	103.0
2000	383	685,272	355,059	1,113,065	100	100	120.3	107.0
2001	368	717,244	356,021	1,148,609	100	100	121.1	107.0
2002	329	759,929	375,400	1,141,348	100	100	101.5	100.5
2003	240	861,504	324,666	1,139,138	100	100	85.4	96.0
2004 ³	217	894,962	360,646	1,117,704	100	100	61.7	89.0
2005	295	909,741	390,307	1,090,327	100	100	46.2	83.8
2006	268	981,994	403,591	1,113,455	100	100	32.5	80.3
2006 ¹	268	981,994	403,591	1,204,248	100	100	55.0	86.9
2007	398	995,714	447,619	1,259,129	100	100	58.8	87.2
2007 ⁴	398	1,003,835	447,619	1,259,129	100	100	56.9	86.7

¹ Revised asset valuation method.

² Percent funded on a total valuation asset and total actuarial accrued liability basis.

³ Change in assumptions and benefit provisions.

⁴ Revised benefit provisions.

ACTUARIAL SECTION

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2007 Resulting from Differences Between Assumed Experience & Actual Experience

<u>Type of Activity</u>	<u>Gain/(Loss)</u>
1. Retirements (including Disability Retirement). If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	\$ (2,118,672)
2. Withdrawal From Employment (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	412,819
3. Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(4,865,648)
4. Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	21,467,894
5. Death After Retirement. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(3,986,059)
6. New entrants/Rehires. New entrants into the System will generally result in an actuarial loss.	-
7. Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	<u>(2,438,229)</u>
8. Composite Gain (or Loss) During Year	<u>\$ 8,472,105</u>

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2007, is based on the present provisions of Michigan State Police Retirement Act (Public Act 182 of 1986, as amended).

Regular Retirement

Eligibility - 25 years of credited service with no age requirement; or age 50 with 10 years credited service.

Annual Amount - If member has 25 or more years of credited service, 60% of final average compensation; if member has less than 25 years of credited service, total credited service times 2% of final average compensation.

Type of Final Average Compensation - Average of 2 final years.

Early Retirement

None.

Deferred Retirement (vested benefit)

Eligibility - 10 years of credited service. Benefit commences at age 50.

Annual Amount - Computed as Regular Retirement benefit based on credited service and final average compensation at termination.

Duty-Disability Retirement

Eligibility - No age or service requirement.

Annual Amount - 60% of final average compensation. Disability benefit plus workers' compensation benefit, if any, shall not exceed 100% of final average compensation.

Non-Duty Disability Retirement

Eligibility - 10 years of credited service.

Annual Amount - 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation.

Duty Death Before Retirement

Eligibility - No age or service requirement.

Annual Amount - 60% of final average compensation is payable to surviving spouse; additional \$1,200 per year for each child under 18 is also payable. If no surviving spouse, children under 18 share in 60% benefit until attainment of age 18. If no spouse or children, dependent parents are eligible for 60% benefit (plus \$1,200 per dependent sibling under 18). Retirement benefit plus workers' compensation, if any, shall not exceed 100% of final average compensation.

Lump Sum Payment - A \$1,500 funeral benefit is also payable.

ACTUARIAL SECTION

Summary of Plan Provisions (continued)

Non-Duty Death Before Retirement

Eligibility - 10 years of credited service.

Annual Amount - 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation, payable to surviving spouse. If no surviving spouse, children under 18 share in benefit until attainment of age 18.

Death After Retirement

The retired member's benefit continues to the surviving spouse. If no surviving spouse, children under 18 share in the continued benefit until attainment of age 18.

DROP Program Provisions

DROP Eligibility - Any age with 25 years of service.

Maximum Years of DROP - 6 years.

Retirement Benefit - Monthly benefit frozen at date of DROP election.

DROP Account - Amount credited - 100% of the participant's Retirement Benefit if stay full six years (for all 6 years); 90% if stay 5 years; 80% if stay 4 years; 70% if stay 3 years; 60% if stay 2 years; 50% if stay 1 year; 30% if stay less than 1 year.

Interest Credit Rate - 3%

COLA - No COLA adjustment on Retirement Benefit until the end of the DROP period.

Benefit Options - At termination of DROP participation and commencement of retirement, options are lump sum of DROP account, partial lump sum, or maintain funds in account.

Post-Retirement Cost-of-Living Adjustments

All members retiring (or leaving employment with vested benefits), and their survivors, are eligible for automatic 2% annual (non-compounded) benefit increases, with a maximum annual increase of \$500.

Post-Retirement Health Insurance Coverage

Persons in receipt of retirement allowances (including members who did not retire directly from the System, but come from a vested deferred status), and their dependents, are eligible for 95% State-paid health insurance coverage and 90% State-paid dental and vision insurance.

Member Contributions

None.

STATISTICAL SECTION

Schedules of Revenues by Source
Schedules of Expenses by Type
Schedules of Changes in Net Assets
Schedules of Benefits and Refunds by Type
Schedules of Retired Members by Type of Benefit
Schedules of Average Benefit Payments
Ten Year History of Membership

STATISTICAL SECTION

This part of the System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years. Schedules included are:

- Schedule of Pension Plan Revenues by Source
- Schedule of OPEB Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of OPEB Plan Expenses by Type
- Schedule of Changes in Net Assets - Pension Plan
- Schedule of Changes in Net Assets - OPEB Plan
- Schedule of Pension Benefits and Refunds by Type
- Schedule of OPEB Benefits and Refunds by Type

Operating Information

These schedules contain contextual information to assist the reader's understanding of how the System's financial information relates to the combination of participating members and the benefits it provides. Schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Other Postemployment Benefit
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - Health
- Schedule of Average Benefit Payments - Dental
- Schedule of Average Benefit Payments - Vision
- Ten Year History of Membership

STATISTICAL SECTION

Schedule of Pension Plan Revenues by Source

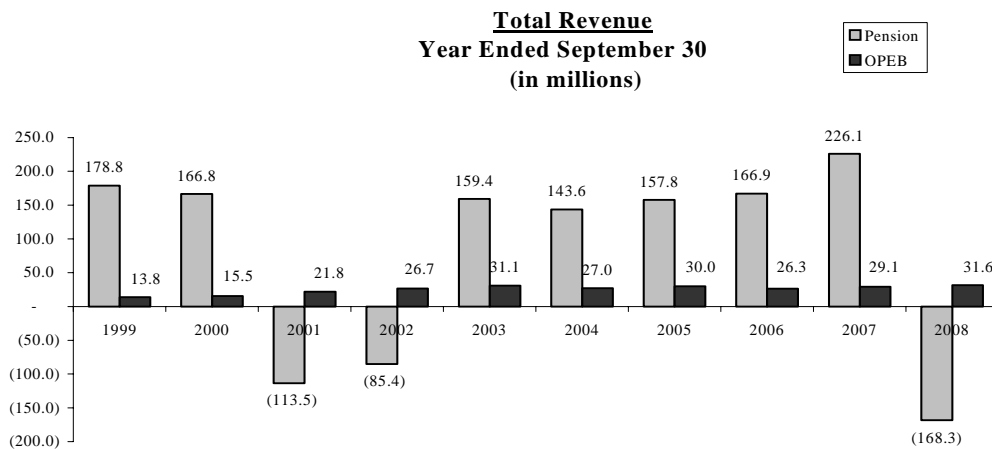
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1999	\$ 7,679	\$ 21,609,520	18.5%	\$ 156,896,728	\$ 178,513,927
2000	16,793	22,107,292	19.0	144,657,843	166,781,928
2001	197,234	24,064,039	20.3	(137,798,523)	(113,537,250)
2002	113,114	22,456,469	18.1	(108,017,248)	(85,447,665)
2003	78,111	25,931,762	22.9	133,377,555	159,387,428
2004	30,062	24,792,137	20.7	118,817,294	143,639,493
2005	112,303	26,607,572	22.6	131,111,123	157,830,998
2006	252,805	26,103,923	22.5	140,565,537	166,922,265
2007	101,205	24,323,324	20.6	201,660,589	226,085,118
2008	95,904	34,364,943	N/A	(202,768,641)	(168,307,794)

Schedule of OPEB Plan Revenues by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1999	\$ 992,839	\$ 12,838,366	11.0%		\$ 13,831,205
2000	1,098,440	14,421,517	12.4		15,519,957
2001	1,265,408	20,581,979	17.3		21,847,387
2002	1,380,199	25,270,639	20.3		26,650,838
2003	1,501,196	29,620,331	26.2		31,121,527
2004	1,572,372	25,426,780	21.2		26,999,152
2005	1,566,646	28,488,384	24.2		30,055,030
2006	1,254,352	25,021,287	21.6	\$ 4,319	26,279,958
2007	1,219,760	27,840,439	23.6		29,060,199
2008	1,274,189	29,131,474	N/A	1,150,820	31,556,483



STATISTICAL SECTION

Schedule of Pension Plan Expenses by Type

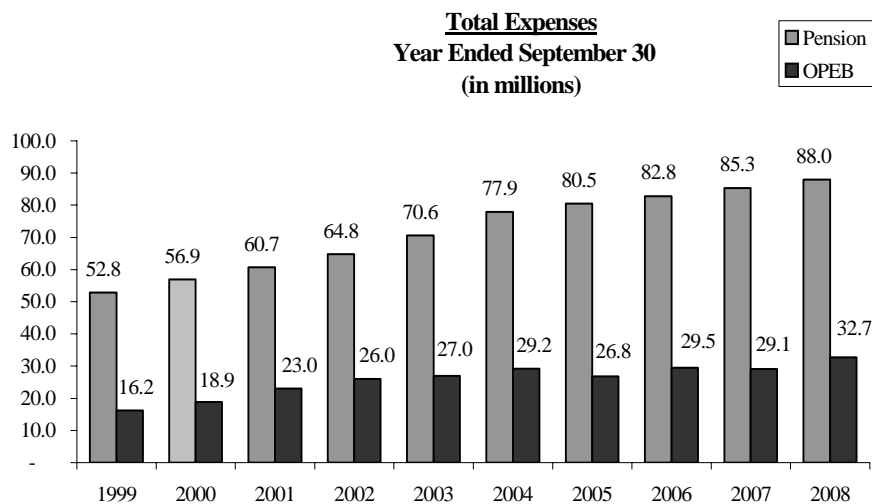
Last Ten Years

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments</u>	<u>Refunds and Transfers</u>	<u>Administrative and Other Expenses</u>	<u>Total</u>
1999	\$ 52,486,589	\$ 4,694	\$ 322,997	\$ 52,814,280
2000	56,693,183		158,935	56,852,118
2001	60,407,395	6	298,711	60,706,112
2002	64,418,130		353,403	64,771,533
2003	70,152,288		423,745	70,576,033
2004	77,591,542	1,434	316,890	77,909,866
2005	80,169,608	358	294,183	80,464,149
2006	82,316,931	142,979	343,205	82,803,115
2007	84,930,044	1,087	401,570	85,332,701
2008	87,590,337		361,652	87,951,989

Schedule of OPEB Plan Expenses by Type

Last Ten Years

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments</u>	<u>Refunds and Transfers</u>	<u>Administrative Expenses</u>	<u>Total</u>
1999	\$ 16,206,544			\$ 16,206,544
2000	18,938,222			18,938,222
2001	23,024,104			23,024,104
2002	26,029,522			26,029,522
2003	27,035,862			27,035,862
2004	29,195,471			29,195,471
2005	26,842,248			26,842,248
2006	29,492,740			29,492,740
2007	29,060,199			29,060,199
2008	29,672,228	\$ 1,502,006	\$ 1,553,172	32,727,406



STATISTICAL SECTION

Schedule of Changes in Net Assets - Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Member contributions	\$ 8	\$ 17	\$ 197	\$ 113	\$ 78	\$ 30	\$ 112	\$ 253	\$ 101	\$ 96
Employer contributions	21,610	22,107	24,064	22,456	25,932	24,792	26,608	26,104	24,323	34,365
Net investment income	156,896	144,658	(137,798)	(108,017)	133,377	118,817	131,111	140,565	201,661	(202,769)
Total Additions	178,514	166,782	(113,537)	(85,448)	159,387	143,639	157,831	166,922	226,085	(168,308)
Pension benefits	52,486	56,693	60,407	64,418	70,152	77,592	80,170	82,317	84,930	87,590
Refunds of member contributions	5					1		143	1	
Administrative expenses	323	159	299	353	424	317	294	343	402	362
Total Deductions	52,814	56,852	60,706	64,771	70,576	77,910	80,464	82,803	85,333	87,952
Changes in net assets	\$ 125,700	\$ 109,930	\$ (174,243)	\$ (150,219)	\$ 88,811	\$ 65,729	\$ 77,367	\$ 84,119	\$ 140,752	\$ (256,260)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Member contributions	\$ 993	\$ 1,098	\$ 1,265	\$ 1,380	\$ 1,501	\$ 1,572	\$ 1,567	\$ 1,255	\$ 1,220	\$ 1,274
Employer contributions	12,838	14,422	20,582	25,271	29,621	25,427	28,488	25,021	27,840	29,131
Other governmental contributions										278
Net investment income								4		278
Transfer from other systems										551
Miscellaneous income										44
Total Additions	13,831	15,520	21,847	26,651	31,122	26,999	30,055	26,280	29,060	31,556
Health care benefits	16,206	18,938	23,024	26,030	27,036	29,195	26,842	29,493	29,060	29,672
Refunds of member contributions										
Transfer to other systems										1,502
Administrative expenses										1,553
Total Deductions	16,206	18,938	23,024	26,030	27,036	29,195	26,842	29,493	29,060	32,727
Changes in net assets	\$ (2,375)	\$ (3,418)	\$ (1,177)	\$ 621	\$ 4,086	\$ (2,196)	\$ 3,213	\$ (3,213)	\$ -	\$ (1,171)

STATISTICAL SECTION

Schedule of Pension Benefits and Refunds by Type

Last Ten Years

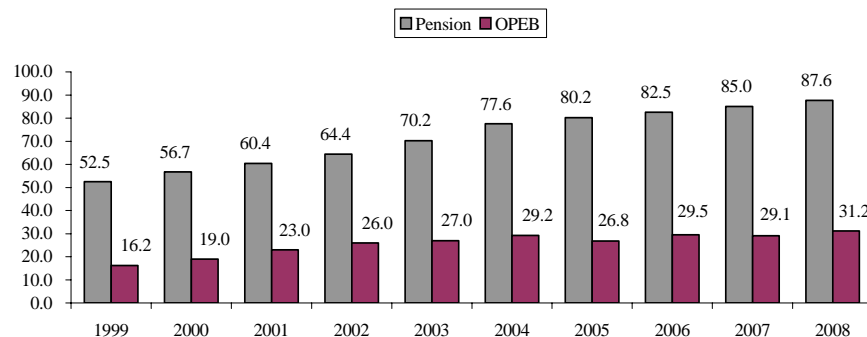
Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Funeral Benefits	Refunds		Total
					Employee Contribution	Employer Contribution	
1999	\$ 49,330,784	\$ 3,155,805			\$ 4,694		\$ 52,491,282
2000	53,466,267	3,223,915		\$ 3,000			56,693,183
2001	57,019,158	3,388,237					60,407,395
2002	60,747,711	3,670,419					64,418,130
2003	66,277,685	3,873,103		1,500			70,152,288
2004	73,358,911	4,232,631			1,434		77,592,976
2005	75,606,407	4,563,201			358		80,169,966
2006	71,830,448	3,993,123	\$ 6,493,360		802	\$ 142,177	82,459,910
2007	72,275,182	4,100,010	8,554,852			1,087	84,931,131
2008	73,769,670	4,407,127	9,413,540				87,590,337

Schedule of OPEB Benefits and Refunds by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Administrative Expenses	Health Refunds	Total
1999	\$ 15,092,102	\$ 924,549	\$ 189,893			\$ 16,206,544
2000	17,784,075	957,386	196,761			18,938,222
2001	21,598,014	1,224,970	201,120		\$ 6	23,024,110
2002	24,354,075	1,447,940	227,507			26,029,522
2003	25,282,634	1,515,191	238,037			27,035,862
2004	27,245,933	1,693,471	256,067			29,195,471
2005	24,894,119	1,692,391	255,738			26,842,248
2006	27,090,226	2,091,393	311,121			29,492,740
2007	26,675,560	2,075,976	308,663			29,060,199
2008	27,093,222	2,324,543	254,463	\$ 1,553,172		31,225,400

Total Benefit Expenses
For Year Ended September 30
(in millions)



STATISTICAL SECTION

Schedule of Retired Members by Type of Pension Benefit

September 30, 2007

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement *						Selected Option **
		1	2	3	4	5	6	Life
\$ 1 - 400	30	22	-	2	1	3	2	30
401 - 800	122	102	3	2	5	-	10	122
801 - 1,200	226	97	86	15	4	15	9	226
1,201 - 1,600	275	139	84	37	8	5	2	275
1,601 - 2,000	241	164	44	12	10	5	6	241
2,001 - 2,400	157	112	22	11	6	2	4	157
2,401 - 2,800	254	192	33	19	7	-	3	254
2,801 - 3,200	494	431	28	22	6	3	4	494
3,201 - 3,600	468	443	11	12	1	-	1	468
3,601 - 4,000	288	276	7	4	-	-	1	288
Over 4,000	178	172	2	3	-	-	1	178
Totals	2,733	2,150	320	139	48	33	43	2,733

* Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Survivor payment - normal retirement
- 3 - Duty disability retirement (incl. survivors)
- 4 - Non-duty disability retirement (incl. survivors)
- 5 - Survivor payment - duty death in service
- 6 - Survivor payment - non-duty death in service

**Selected Option

Life - 100% joint and survivor

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Retired Members by Type of Other Postemployment Benefit September 30, 2007

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits		
		Health	Dental	Vision
\$ 1 – 400	30	3	4	4
401 – 800	122	51	49	51
801 – 1,200	226	153	144	145
1,201 – 1,600	275	232	228	227
1,601 – 2,000	241	219	211	213
Over 2,000	1,839	1,770	1,778	1,779
Totals	2,733	2,428	2,414	2,419

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Average Benefit Payments - Pension

Last Ten Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
Period 10/1/97 to 9/30/98								
Average Monthly Benefit	\$ 731	\$ 1,188	\$ 819	\$ 1,114	\$ 1,351	\$ 2,084	\$ 2,392	\$ 1,936
Average Final Average Salary	2,116	21,238	23,006	22,791	26,112	36,912	44,432	34,509
Number of Active Retirants	98	22	75	70	98	1,548	227	2,138
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	\$ 731	\$ 1,188	\$ 819	\$ 1,114	\$ 1,351	\$ 2,084	\$ 2,392	\$ 1,936
Average Final Average Salary	2,116	21,238	23,006	22,791	26,112	36,912	44,432	34,509
Number of Active Retirants	98	22	75	70	98	1,548	227	2,138
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	\$ 746	\$ 1,196	\$ 856	\$ 1,120	\$ 1,401	\$ 2,173	\$ 2,489	\$ 2,006
Average Final Average Salary	1,852	22,257	24,530	22,790	27,318	38,441	45,879	35,702
Number of Active Retirants	112	23	85	70	102	1,601	238	2,231
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	\$ 938	\$ 1,408	\$ 854	\$ 1,124	\$ 1,421	\$ 2,267	\$ 2,569	\$ 2,086
Average Final Average Salary	8,313	25,199	24,827	23,537	27,727	39,975	47,088	37,065
Number of Active Retirants	141	25	86	67	103	1,651	246	2,319
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	\$ 1,074	\$ 1,464	\$ 891	\$ 1,164	\$ 1,451	\$ 2,344	\$ 2,618	\$ 2,154
Average Final Average Salary	11,602	26,268	25,563	24,298	27,958	41,278	47,650	38,158
Number of Active Retirants	161	29	85	63	107	1,684	253	2,382
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	\$ 1,689	\$ 1,579	\$ 915	\$ 1,299	\$ 1,572	\$ 2,546	\$ 2,848	\$ 2,359
Average Final Average Salary	14,507	31,832	25,938	27,928	29,701	44,536	50,383	39,364
Number of Active Retirants	240	32	94	69	105	1,838	271	2,649
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	\$ 860	\$ 1,613	\$ 1,010	\$ 1,425	\$ 1,638	\$ 2,642	\$ 2,896	\$ 2,413
Average Final Average Salary	1,192	32,786	27,675	30,487	30,472	46,696	52,623	42,564
Number of Active Retirants	165	30	101	77	105	1,940	279	2,697
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	\$ 881	\$ 1,692	\$ 1,023	\$ 1,494	\$ 1,688	\$ 2,704	\$ 2,955	\$ 2,466
Average Final Average Salary	1,150	34,621	28,069	31,362	30,799	46,663	51,067	42,364
Number of Active Retirants	171	32	103	79	105	1,955	281	2,726
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	\$ 1,074	\$ 1,803	\$ 1,034	\$ 1,534	\$ 1,708	\$ 2,672	\$ 2,908	\$ 2,528
Average Final Average Salary	7,023	36,079	30,151	33,407	32,097	48,479	53,890	46,586
Number of Active Retirants	28	33	115	83	110	2,048	295	2,712
Period 10/1/06 to 9/30/07:								
Average Monthly Benefit	\$ 1,204	\$ 1,953	\$ 1,090	\$ 1,567	\$ 1,812	\$ 2,752	\$ 3,054	\$ 2,604
Average Final Average Salary	13,908	35,752	31,922	33,416	33,727	49,100	54,008	47,113
Number of Active Retirants	37	31	123	83	113	2,053	293	2,733

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Average Benefit Payments - Health Last Three Years

Payment Periods	Credited Service (Years) as of September 30								Total
	0-5	5-10	10-15	15-20	20-25	25-30	30 +		
Period 10/1/04 to 9/30/05									
Average Monthly Benefit	\$ 1,403	\$ 1,866	\$ 1,121	\$ 1,512	\$ 2,511	\$ 2,770	\$ 2,974	\$ 2,611	
Average Final Average Salary	17,124	33,041	27,280	31,346	43,452	48,672	53,253	46,154	
Number of Active Retirants	9	26	79	70	714	1,253	268	2,419	*
Period 10/1/05 to 9/30/06									
Average Monthly Benefit	\$ 1,426	\$ 1,992	\$ 1,167	\$ 1,577	\$ 2,547	\$ 2,821	\$ 3,018	\$ 2,657	
Average Final Average Salary	17,123	34,797	28,154	32,493	43,596	49,238	53,401	46,579	
Number of Active Retirants	9	27	81	69	707	1,249	269	2,411	
Period 10/1/06 to 9/30/07									
Average Monthly Benefit	\$ 1,667	\$ 2,060	\$ 1,231	\$ 1,607	\$ 2,621	\$ 2,915	\$ 3,163	\$ 2,741	
Average Final Average Salary	21,265	33,615	31,012	32,504	44,052	50,004	53,445	47,112	
Number of Active Retirants	14	25	89	69	711	1,253	267	2,428	

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Source: Gabriel Roeder Smith & Co. - for all periods except 10/1/04 to 9/30/05

Schedule of Average Benefit Payments - Dental Last Three Years

Payment Periods	Credited Service (Years) as of September 30								Total
	0-5	5-10	10-15	15-20	20-25	25-30	30 +		
Period 10/1/04 to 9/30/05									
Average Monthly Benefit	\$ 1,403	\$ 1,866	\$ 1,126	\$ 1,512	\$ 2,535	\$ 2,783	\$ 2,979	\$ 2,627	
Average Final Average Salary	17,124	33,041	27,185	31,346	44,039	48,958	53,354	46,504	
Number of Active Retirants	9	26	77	70	703	1,250	267	2,402	*
Period 10/1/05 to 9/30/06									
Average Monthly Benefit	\$ 1,426	\$ 1,992	\$ 1,172	\$ 1,575	\$ 2,573	\$ 2,836	\$ 3,023	\$ 2,675	
Average Final Average Salary	17,123	34,797	28,084	32,097	44,239	49,573	53,502	46,970	
Number of Active Retirants	9	27	79	68	695	1,248	268	2,394	
Period 10/1/06 to 9/30/07									
Average Monthly Benefit	\$ 1,667	\$ 2,060	\$ 1,237	\$ 1,605	\$ 2,644	\$ 2,928	\$ 3,171	\$ 2,758	
Average Final Average Salary	21,265	33,615	31,015	32,102	44,638	50,293	53,637	47,475	
Number of Active Retirants	14	25	87	68	700	1,253	267	2,414	

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Source: Gabriel Roeder Smith & Co. - for all periods except 10/1/04 to 9/30/05

STATISTICAL SECTION

Schedule of Average Benefit Payments - Vision

Last Three Years

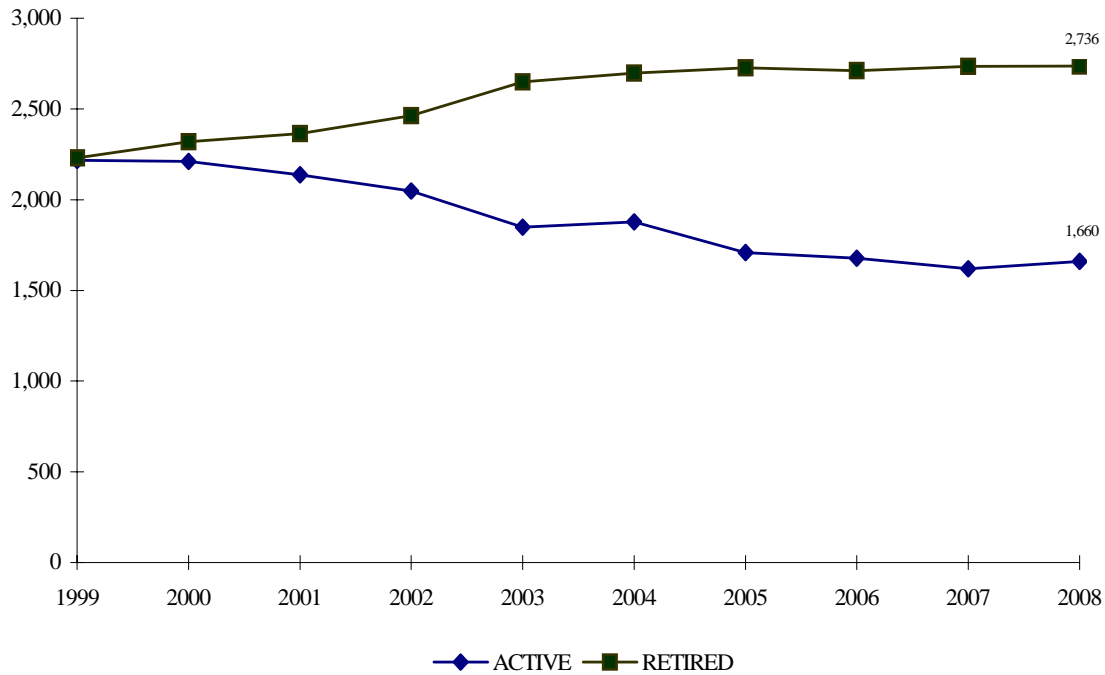
Payment Periods	Credited Service (Years) as of September 30								Total
	0-5	5-10	10-15	15-20	20-25	25-30	30 +		
Period 10/1/04 to 9/30/05									
Average Monthly Benefit	\$ 1,403	\$ 1,866	\$ 1,114	\$ 1,499	\$ 2,534	\$ 2,783	\$ 2,979	\$ 2,625	
Average Final Average Salary	17,124	33,041	27,540	30,941	44,016	48,971	53,354	46,491	
Number of Active Retirants	9	26	78	71	703	1,252	267	2,406	*
Period 10/1/05 to 9/30/06									
Average Monthly Benefit	\$ 1,426	\$ 1,992	\$ 1,161	\$ 1,561	\$ 2,571	\$ 2,836	\$ 3,023	\$ 2,673	
Average Final Average Salary	17,123	34,797	28,418	31,669	44,168	49,574	53,502	46,936	
Number of Active Retirants	9	27	80	69	696	1,250	268	2,399	
Period 10/1/06 to 9/30/07									
Average Monthly Benefit	\$ 1,667	\$ 2,060	\$ 1,226	\$ 1,591	\$ 2,643	\$ 2,927	\$ 3,171	\$ 2,755	
Average Final Average Salary	21,265	33,615	31,285	31,674	44,568	50,293	53,637	47,440	
Number of Active Retirants	14	25	88	69	701	1,255	267	2,419	

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Source: Gabriel Roeder Smith & Co. - for all periods except 10/1/04 to 9/30/05

STATISTICAL SECTION

Ten Year History of Membership Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

ACKNOWLEDGMENTS

The *Michigan State Police Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2007-2008 report included:

Management:

Ronald W. Foss, Director
Cindy Peters, Accounting Manager

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Trina Guy
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Jamin Schroeder
Marilyn Williams

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The report may be viewed on-line at: www.michigan.gov/ors